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THE ECONOMIC RECOVERY OF GERMANY

1933-1938

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“Je ne propose rien, je n'impose rien, j'expose.”

1963

THE
ECONOMIC RECOVERY
OF
GERMANY

FROM 1933 TO THE INCORPORATION
OF AUSTRIA IN MARCH 1938

15115.

BY

D.36. C. W. GUILLEBAUD

LECTURER IN ECONOMICS IN THE UNIVERSITY OF CAMBRIDGE
FELLOW OF ST. JOHN'S COLLEGE, CAMBRIDGE. AUTHOR OF
"THE WORKS COUNCIL: A GERMAN EXPERIMENT IN
INDUSTRIAL DEMOCRACY"



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FOREWORD

THIS short book is addressed to the general public as well as to professional economists. I have, therefore, been as sparing as possible in the use of technical terms and have also, with few exceptions, refrained from theoretical discussions.

The statistical information in this book is derived almost entirely from such official or semi-official sources as the publications of the Reichs Statistical Office, the Reports of the Reichskreditgesellschaft, the bulletins of the Business Research Institute (*Institut für Konjunkturforschung*), etc. For general information on economic policy, and particularly on the practical application of such policy, I have relied chiefly upon an intensive study of German periodical literature from 1933 to 1938. With the exception of officials in the office of the Trustee of Labour at Hamburg, I have deliberately refrained from approaching any of those in higher administrative positions in the German State, as I was concerned to find out as far as I could how the system was working, and not merely how it stood on paper, or how those administering it at the top regarded it. My chief personal contacts inside Germany have been with professional economists and with members of the general public, employers and others.

With regard to the statistical information the objection may be raised that, being official, it cannot be relied upon. To this I would reply, in the first place, that the deliberate manipulation of official

statistics would be an administrative impossibility in Germany, where the whole economic system is based on the existence of accurate quantitative data. A moment's reflection will show that it is not practicable to have two sets of figures — one for publication and another and different set for official use only. In the second place, no one could handle for months on end the statistics, official and otherwise, of a country, covering a number of years, without gaining a clear impression of their general consistency and reliability. Earlier figures are in fact being revised all the time, sometimes upwards and sometimes downwards, and there are often discrepancies between different estimates for the same series. These make the task of the research worker more difficult, but certainly do not point to officially-inspired tampering with the true figures. My own conclusion is that the statistical material provided in Germany is as accurate as that of any other country. If the Germans wish to conceal certain economic facts, they refrain from publishing them ; they do not, so far as I can judge, knowingly issue a false set of figures, though in a few cases, *e.g.* food statistics, where the current figures might have a possible military significance, they may be so drawn up as to conceal a part of the truth.

In principle my survey covers the period from 1933 to the incorporation of Austria in March 1938, although I have referred in places to certain events of great importance which have taken place since then. In a book of this size it is quite impossible to do more than trace in outline the general course of economic development in Germany ; hence a great deal which should be properly included in a more comprehensive study has had perforce to be omitted here.

Throughout this book my aim has been to approach the study of economic conditions in contemporary Germany from an impartial and objective standpoint. While I do not share the political tenets of National Socialism, I have kept, I hope, all political bias out of my work. Further, I am not concerned to make propaganda either for or against Germany on the basis of her economic achievements — whether successes or failures. My main endeavour, both as economist and historian, has been to get as near to the truth as possible. Finally, I am concerned throughout only with the economic aspects of the German recovery since 1933, and have left political considerations on one side. I desire explicitly to dissociate myself from inferences of a political character which others may draw from the economic facts which I have described ; while so far as economic inferences are concerned, I would draw attention to the caution expressed on pp. 232-3.

It is my hope none the less that my book may contribute to give to English-speaking readers a more accurate and a fairer interpretation of the economic organisation of National Socialist Germany than has been hitherto available.

I wish to express my thanks to the many people who have helped me in one way or another in the collection of material, and by criticism and correction on points of detail ; I am especially grateful to my friend and colleague Mr. E. A. G. Robinson, who has read the whole of the manuscript and to whom I am indebted for a number of valuable suggestions.

C. W. GUILLEBAUD.

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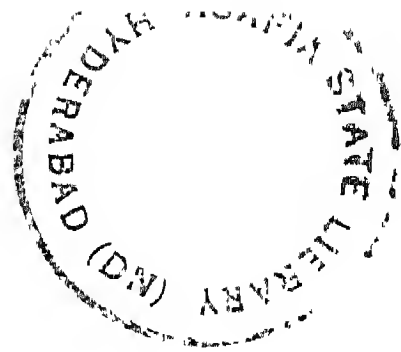
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CHAPTER I

THE HISTORICAL BACKGROUND

I

FROM THE STABILISATION OF THE MARK IN 1923 TO THE BOOM OF 1927-1929

THE facts of the great post-war inflation in Germany are too well known to need recapitulation here. It must suffice for our purposes that, beginning slowly in 1919 and continuing at a moderate rate throughout 1920 and 1921, the inflation acquired a rapidly increasing momentum from the latter part of 1922 onwards, until in 1923 it attained a phantastic tempo, such as the world had never seen before. Under the combined influence of the reparation policy of the Allied Powers, of the French occupation of the Ruhr and of a faulty economic policy, the German mark sank until it had lost practically all its purchasing power. Finally, on November 20, 1923, a new currency unit, the rentenmark, was introduced, and the value of the old mark was stabilised at the equivalent of one million million paper marks equal to one rentenmark.

This vast inflation produced fundamental changes in the social and political structure of the country; the whole money wealth and savings of the propertied middle classes were swept away, and a very different Germany came out of the catastrophe. On the

economic side it may be observed here that while, on the one hand, she emerged with the virtual abolition of her previous debt structure (including the wiping-out of the national debt — a small portion of the debt was subsequently re-valorised), on the other hand a great deal of investment had taken place under the stimulus of inflation which was later to prove uneconomic and to involve the owners in ruin. Moreover, stocks of working capital and liquid capital in all forms had almost completely disappeared.¹ The Exchequer was empty and there was no question at this moment of a foreign loan.

The rentenmark, which was based, not on gold, but on a first mortgage on German industry, commerce, and agriculture, was issued to the extent of 2,400 million rentenmarks, one half of which was handed over to the Reich to cover its immediate requirements. At the same time the issue of the old paper marks, which continued to circulate, was very largely increased. That in the face of this currency expansion it should have been possible to maintain the stability of the foreign exchanges was due mainly to such circumstances² as : the withdrawal from cir-

¹ Cf. the following figures given by Dr. Schacht in his book *The Stabilisation of the Mark*, p. 190 :

TOTAL RESOURCES OF GERMAN MONETARY INSTITUTIONS		
	End of 1913 Mrd. Pre-war Marks	End of 1923 (Mrd. Rentenmarks)
Savings banks	19.7	0.1
Banks	13.4	2.7
Co-operative credit societies	4.6	0.4
Insurance institutions	6.3	1.2
	44.0	4.4

N.B.—One milliard = 1,000 millions.

² Cf. Bresciani-Turoni, *The Economics of Inflation*, pp. 348-9.

circulation of the various substitute currencies which had been issued during the inflation, and which at the end amounted to two-thirds of the total circulation ; the tremendous decline in the velocity of circulation of the currency as soon as its value had been stabilised ; and the relative stabilisation of money wages and other money incomes.

The cessation of inflation brought with it as its immediate effect a large increase in recorded unemployment, which rose to 1,533,000¹ on January 1, 1924. There were many difficult problems of adaptation to the new conditions, not least in the capital market. Interest rates, in terms of the new stable currency, were as high as 100 per cent. in January 1924 ; and even from February to May of that year the average annual rate for money lent by the month was 35·3 per cent. The Reichsbank's own rate was kept at the (in comparison) modest level of 10 per cent., and it endeavoured by a liberal credit policy to bring about a reduction in money market rates. In this it was successful ; activity revived, and unemployment for the first time since August 1923 began to decline and was not more than 700,000 in April 1924. The recovery led, however, to a considerable increase in the volume of imports, with the result that the external value of the rentenmark showed unmistakable signs of weakness. The Reichsbank was forced to intervene in April with a drastic policy of credit restriction and credit rationing, which, though it restored the stability of the currency, produced many bankruptcies, a return to higher interest rates and

¹ This figure only represents the number of those registered with the employment exchanges, and as compulsory unemployment insurance was not introduced till 1927, it greatly understates the number of those actually without work.

widespread depression and unemployment.

At this juncture there appeared (April 9, 1924) the report of the Dawes Committee, in which was proposed a plan for settling, at least provisionally, the hitherto apparently insoluble problem of reparations. This plan, which was approved by the Allied Powers on August 16 and was brought into force on September 1, 1924, was to have a dominating influence on the economic development of Germany for the next five years.

Although the Dawes Plan left the total liabilities of Germany for reparations still indeterminate, it fixed annual quotas rising from 1,000 million RM. (£50 millions) in the first year to 2,500 million RM. in the fifth and subsequent years.¹ The Plan provided for the collection of the full amount of the annuities in RM., but entrusted the duty of effecting their transfer into foreign currencies to the Agent for Reparations, who was under obligation not to transfer more than the exchange could stand. In other words, there was a transfer protection based on the guaranteed stability of the external value of the mark.

The acceptance of the Plan carried with it further the complete evacuation of the Ruhr by France and Belgium and a foreign loan of 800 million RM. to facilitate the payment of the first annuity. It remains to mention two other important measures which were carried out in August 1924 as an integral part of the Dawes Plan. Firstly, the new statutes of the Reichsbank placed it in a position of independence of the

¹ A "prosperity index" afforded the possibility that the maximum annuities might later be increased if Germany's wealth became greater, while a "gold clause" provided for a revision of German payments in either direction in the event of the general purchasing power of gold altering by not less than 10 per cent. (RM. is short for Reichsmark.)

State, and gave special powers to the President of the Bank to control credit so as to ensure the stability of the currency and the convertibility of the notes into gold. But they did not, be it noted, confer on the Reichsbank the power of directly influencing the volume of credit or the long-term rate of interest by open-market dealings in securities on any appreciable scale. Secondly, the old paper marks and the new rentenmarks were replaced by the new reichsmark, which had the same parity but was based directly on gold.

The news of the acceptance of the Dawes Plan had an immense psychological effect both in Germany and abroad. The success of the Dawes Loan was immediate and was followed by a considerable inflow of foreign loans to Germany ; it has been estimated that 1,200 million RM. had been lent to Germany by the end of 1924, and at least an equal sum was borrowed during each of the two following years. Trade once more revived and employment improved, but in June 1925 occurred the collapse of the great Stinnes concern, which gave a heavy blow to confidence and ushered in a prolonged period of depression and heavy unemployment. The long-delayed final liquidation of the inflation boom now took place and many thousands of the mushroom firms which had originated then were forced into bankruptcy. For a while the flow of foreign credits slackened, with the result that the acute domestic scarcity of capital weighed heavily on German industry and commerce, the more so as the Reichsbank maintained its policy of credit restriction throughout the whole of 1925.¹

¹ The foreign balance was unfavourable and the gold and foreign exchange holdings of the Reichsbank declined from 2.18 to 1.51 milliard RM. between February and September 1925.

By the end of 1925 a large part of the most necessary adjustments to the condition of a stable currency had been accomplished, and the way was becoming clear for a revival of trade, which set in slowly during the course of 1926. The depression of the internal German market during the previous year brought with it a contraction of imports and expansion of exports, and this was aided by the good harvest of 1925 which decreased the need for imports. Relieved once more of pressure upon the exchanges, the Reichsbank was able to lower its discount rate by stages from 9 per cent. in September 1925 to 6 per cent. in July 1926, and to allow credit to increase. Internal confidence revived, industrial shares rose rapidly in price and long-term interest rates in general moved downwards. Only unemployment remained very high (over two million for the average of 1926), partly owing to the continued liquidation of the inflation firms,¹ and to structural changes in German industry due to rationalisation measures, which involved a very large initial displacement of labour.

One important result of the depression of 1925-26 had been to awaken a keen interest in Germany in the adaptation of her industrial structure and organisation, both to the new territorial conditions of the Reich and to the changes in technique which had taken place in other countries since the war. The collapse of the Stinnes concern pointed the moral that much of the development of the immediate post-war years had been faulty and ill-conceived and stood in need of drastic reorganisation. Industrial Germany from 1925

¹ Between the third quarter of 1925 and the second quarter of 1927 there were 31,000 bankruptcies and the number of firms going into voluntary liquidation exceeded the establishment of new ones by over 19,500.

to 1929 was dominated by the idea of rationalisation. In its German form this signified the erection of new plants and the rebuilding and extension of old ones ; the elimination of uneconomic units ; the adoption of new technical devices, above all, large-scale mass-production American methods ;¹ and the formation of big fusions, among the most notable of which were the great chemical combine, the I.G., in November 1925 and the Vereinigte Stahlwerke in the iron and steel industry in May 1926. With characteristic energy and thoroughness the business leaders of Germany set to work to bring their plant and equipment up to date in line with the most modern ideas, with the determination of reducing production costs and thus restoring Germany's competing power in world markets. The widespread belief within the country that these measures, in conjunction with manifest signs of improvement in trade abroad, would prove effective and would finally overcome all the troubles of the post-war period, led to a very optimistic feeling, which was eminently favourable to domestic saving and investment in Germany.

The outside world also was impressed by this determination to build up anew Germany's industrial structure, and American capital in particular was very ready to come to her assistance at a time when the American balance of trade was highly favourable, the Government disposed to favour a re-distribution of gold stocks, while German interest rates were most attractive.

All that was needed to set the ball rolling was an

¹ Thus what Mr. Hawtrey has termed the "deepening" of capital — the increase in the amount of capital per unit of output — played an even more important part in this expansion of investment than the "widening" of capital. Cf. Hawtrey, *Capital and Employment*, chaps. III and IV.

initial stimulus, which was provided by the English coal strike of May to November 1926. This gave to the German coal industry a big impetus, which soon extended to the iron and steel and investment goods industries generally. A further favourable factor was the stabilisation of a number of important currencies in terms of gold during the course of 1926.

Revival began in good earnest in the latter part of 1926 and developed into a pronounced boom which lasted until 1928-29. While it presented many of the usual features of a cyclical boom, *e.g.* great investment activity, expansion of income and strong pressure on the credit and capital markets, in other respects it was highly abnormal. In the first place it was accompanied throughout by extremely high long- and short-term rates of interest; secondly, it was largely financed by imports of foreign capital, of which more than half were short-term credits; thirdly, the rapidly rising Dawes annuities were being paid in full throughout the period;¹ fourthly, unemployment continued to be very extensive: the average number of registered unemployed in 1927 was 1,353,000, in 1928 it was 1,353,000 and in 1929 it was 1,892,000. The actual number out of work was considerably larger than these figures would indicate, as registration was still incomplete.

The promptness with which domestic saving was resumed after the stabilisation of the mark and the magnitude which it attained were alike remarkable. From 1924 to 1929 the domestic money accumulation of the German people amounted to 43-48 milliard

¹ About one-half of the annuities was actually transferred over the exchanges, while the other half consisted of deliveries in kind and similar payments, but the general economic effects on Germany did not differ substantially in the two cases.

RM.¹ (£2,150–£2,400 millions), while not less than 9·7 milliards are estimated to have been held abroad by Germans in December 1930.² But large though the internal savings were, they were quite inadequate to meet the combined demands of German industry and agriculture and of public bodies in a period of general expansion.³ One outstanding result of this was the high level of interest rates prevailing in Germany between 1925 and 1929, as can be seen from the following table :

TABLE I
SHORT- AND LONG-TERM INTEREST RATES

	Per Cent.				
	1925	1926	1927	1928	1929
Commercial bill rates	8·95	5·75	5·79	6·91	7·33
Yield of all fixed interest securities quoted on Berlin Stock Exchange	9·72	7·99	7·28	7·83	8·18

The existence of these rates, together with the favourable prospects of Germany's industry, resulted in a vast inflow of foreign credits, with the aid of which not only were reparations financed, but very large additions were made to German capital investment. It is important to note that the chief rôle of the imports of foreign credits was to finance the import of foodstuffs and raw materials, which were required by the growth of the national income and of output, and which, in the absence of such credits, could not have been financed by an equivalent growth

¹ *Vierteljahrsheft zur Konjunkturforschung*, Sonderheft 22, 1931, pp. 28-9.

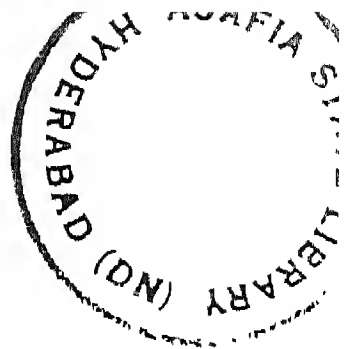
² Report of Layton Committee, Appendix IV.

³ Germany suffered from the loss of the whole of her pre-war investments of capital abroad, which have been estimated at 20 milliard RM.

of exports, in view of the conditions of foreign demand, the German price and cost structure and the circumstances of domestic production.

During 1925 and 1926 the long-term type of foreign loan predominated although there was also a very considerable volume of short-term borrowing. By the end of 1926, however, the President of the Reichsbank, Dr. Schacht, was becoming alarmed at the growing volume of indebtedness, and under his influence the Government withdrew, from December 1926 to May 1927, the previous exemption of long-term loans from German taxation. The result was to diminish very greatly the inflow of such loans, but to stimulate all the more that of the far more dangerous short credits, which were not subject to the profit tax. In vain Dr. Schacht protested against the dangers of the rapidly increasing import of foreign funds and sought to restrict their amount. After so many years of acute capital shortage, the possibility of borrowing, even at exorbitant rates of interest, was too tempting, and banks, industrialists and municipalities vied with one another in taking up foreign credits.

At the outset, indeed, the Reichsbank had been favourable to the movement of foreign capital into Germany, and the main purpose of the Gold Discount Bank, which Dr. Schacht had founded in 1924 as a subsidiary of the Reichsbank, and which was later to play an important but very different rôle in the German capital market, was to facilitate the intake of foreign credits. But later on, as short-term loans became increasingly predominant and were more and more used, especially by public bodies, to finance long-term investment, he grew very critical and endeavoured by every means at his disposal to stem the



tide. That he failed was partly due to lack of support by the other banks and by municipalities, and partly to technical banking and currency reasons. By far the most effective method he could have adopted would have been to lower the Reichsbank re-discount rate (it ruled over 7 per cent. during most of the period from 1925 to 1930); to increase largely the supply of central bank credit; and so both to reduce internal discount rates and lessen the attractiveness of Germany as a market for foreign capital. But there were very serious obstacles in the way of this policy. The statutes of the Reichsbank were, under the Dawes Plan, subject to a measure of foreign control, and any large expansion of its credit would have met with opposition and criticism from outside; moreover, its note issue was limited by the statutory requirement of a minimum cover of 40 per cent. of gold and foreign exchange. Again, the absence of effective open-market powers restricted both the possibilities of credit creation and, even more, any direct influence on the long-term rates of interest. Finally, a large credit expansion would inevitably have stimulated imports and led to a fall in the external value of the currency; while any considerable reduction in German interest rates would have produced an outflow of short-term credits. Experience showed during this period that whenever the differential between foreign and domestic rates was reduced, foreign funds tended to flow out, and credit markets were tightened rather than eased. The Reichsbank has with justice been criticised for some aspects of its monetary policy after the stabilisation of the mark (notably the failure to accumulate more substantial reserves of gold and foreign exchange), but it is difficult to see how it

could have intervened effectively, given both the absence of any foreign exchange control and the absolute necessity of preserving the external value of the mark.

The main repercussions of the great inflow of foreign loans and short-term credits from 1924 to 1929 can be summarised as follows :

- (1) So long as the supply of foreign loans continued, the prosperity thus artificially produced in Germany also continued.
- (2) The possibility of borrowing stimulated a great deal of extravagant expenditure on the part of the public bodies, such as municipalities, from which they would otherwise have been forced to refrain.
- (3) The craze for rationalisation led to the financing by means of foreign credits of much investment which, though technically efficient, proved in the depression to be financially ruinous, when it was being operated far below capacity. There was also a great deal of obvious over-investment in some branches of industry, notably iron, steel and cement.¹
- (4) The employment of short-term loans on a large scale for long-term purposes was inevitably disastrous as soon as these funds were withdrawn to any considerable extent.
- (5) The finance of reparations out of foreign loans had the effect of concealing from the creditor countries both the real burden on Germany and the necessary conditions (import surplus on the

¹ There is a tendency in Germany to overlook the fact that this investment did not disappear in the depression, and most of it was in fact of great service in the recovery period after 1933.

one side and export surplus on the other) which had to be fulfilled in order for transfer to be carried out in normal circumstances. It also resulted in practice in the conversion of the annuities which enjoyed transfer protection under the Dawes Plan, into private obligations to foreign creditors which could claim no such protection. Although it is impossible to estimate how much foreign capital would have come in in the absence of reparations, there can be no doubt that their payment contributed very materially to raise the rate of interest and maintain the scarcity of capital in Germany, and so encouraged the import of capital.¹

It is clear from what has already been said that the boom of 1927-29 was highly unstable, both for internal and external reasons. Internally it depended chiefly upon a temporary stimulus to investment given by German industrial reconstruction, itself the legacy of the war and inflation years. Externally it was maintained by favourable economic conditions abroad and by the inflow of foreign funds.

Industrial activity reached its highest point in 1928, although some indices, such as national income, prices,

¹ Neither the attitude of present-day Germany, nor the treatment accorded by Dr. Schacht to her foreign creditors, can be appraised except in the light of these facts, though they are by no means the only factors that deserve to be taken into account on both sides.

It may be well to put on record that the total sum of German reparation payments under the Dawes and Young Plans from 1924 to 1930 amounted to 10.3 milliard RM. (£515 millions), while the foreign loans and credits accorded to Germany during this period amounted to 26 milliard RM. (£1,300 millions). Against this latter figure may be set the estimate of the Brookings Institute of Economics in Washington of 37 milliard RM. (£1,850 millions) for the total value of all reparation payments and deliveries made by Germany from 1918 to 1930, though it must be borne in mind that this includes the value of a large amount of war material.

wages, etc., continued to rise until 1929, as can be seen from Table II :

TABLE II
ECONOMIC INDICES

	National Income (Mrd. RM.)	Wholesale Prices (1913=100)	Industrial Production (1928=100)	Imports (Mrd. RM.)	Exports (Mrd. RM.)	Wage Rates (1928=100)	Unemployment (000's)	Currency Circulation * (Mrd. RM.)
1925	60.0	141.8	82.9	12.4	9.3	80	646	4.5
1926	62.7	134.4	76.3	10.0	10.4	87	2,011	4.9
1927	70.8	137.6	96.3	14.2	10.8	92	1,353	5.5
1928	75.4	140.0	100.0	14.0	12.3	100	1,353	5.8
1929	76.0	137.2	100.1	13.5	13.5	105	1,802	6.0

* Currency circulation comprises all coins and bank-notes.

By the end of 1928 rationalisation was largely a spent force and there were signs of surplus capacity in a number of investment goods industries. New industrial fixed capital declined from 1,081 million RM. in 1928 to 399 millions in 1929 ; but total investment still remained at a very high level owing to the large housing and other programmes which were carried out by the Reich and communes.¹ Replacements of fixed capital also continued on almost as large a scale in 1929 as in 1928. Although the demand for industrial goods in the internal market diminished, output in general was maintained by the strength of the export markets under the influence of high prosperity in the United States. Exports increased from 12.3 milliards in 1928 to 13.5 milliards in 1929, and practically the whole of the rise was accounted for by

¹ Private investments in new fixed capital from 1924 to 1929 amounted to 10.4 milliard RM., while the investments of public bodies amounted to 24.2 milliard RM., the bulk of which took place in 1927 to 1929.

the growth of the exports of finished goods. In the latter year as much as 34 per cent. of the total output sold by the machine industry was marketed abroad.

Whereas wholesale prices, especially of consumption goods, had moved sharply upwards in 1928, there was a slight fall in most price indices in 1929 and a large fall (from 139.1 to 124.2; 1913 = 100) in the "sensitive prices index" covering such goods as scrap- and pig-iron, lead, hides, wool, hemp and flax. The prices (1926 = 100) of industrial raw materials and semi-manufactures, which were mostly controlled by cartels, rose from 102.1 to 105.0 between 1928 and 1929, while the prices of the "free", mainly imported, raw materials and semi-manufactures fell from 106.8 to 97.4. The cost of living continued to rise and the discrepancy between the prices of consumption goods and producers' goods, remained very wide; the former stood at 171.6 in 1929 and the latter at 138.6 (1913 = 100).

In spite of rising money wages (the income from wages and salaries rose from 42.6 milliard RM. in 1928 to 43.0 milliard RM. in 1929) the output of the consumption goods industries actually declined slightly in 1929; and though this was not immediately reflected in a decrease in the output of production goods, it was an ominous movement for the future development of industry in general. Consumption per head was approximately the same in 1929 as in 1928, but stocks, which had been increasing rapidly in the previous years, were drawn upon in 1929.

That the year 1929 should so clearly have marked the turning point in the German trade-cycle was due principally to two major causes: the decline in the expectation of profits of enterprise, and the high level of interest rates in the capital market.

Both politically and economically the situation in 1929 was not calculated to foster optimism. In May of that year there had been renewed negotiations of an acrimonious nature over the payment of reparations. In the end they resulted in the adoption of the Young Plan which lowered annuities to 2,000 million RM. (1,700 million RM. in the first two years) for the average of 37 years, and fixed their total amount.¹ The settlement, which envisaged payments extending in all over 59 years, caused acute controversy and disappointment in Germany, where more favourable terms had been hoped for.² During the course of the negotiations the French, for political reasons, withdrew considerable short-loan funds from Germany, impelling the Reichsbank to raise its discount rate to $7\frac{1}{2}$ per cent., and once again to ration credit. The future prospects of industry were also affected detrimentally by the rise in wages and social services (compulsory unemployment insurance had been introduced in 1927) which increased costs and led to a fall in the profits of most enterprises in 1929 ; at the same time there was a growing feeling that a good deal of the previous rationalisation of industry had resulted in financial over-capitalisation.

Both short- and long-term rates of interest in 1929 were above the 1928 level ; the average rate of interest

¹ The Young Plan contemplated the eventual commercialisation of a large part of reparations. It was advantageous to Germany in that it reduced the annuities and involved the removal of foreign controls and the evacuation of the Rhineland, but it abolished transfer protection for the "unconditional" part of the annuities (660 million RM. per annum), while the reciprocal abandonment of the "prosperity index" and the "gold clause" turned out to be a very bad bargain for Germany when gold prices fell.

² The acceptance of the Plan was one of the chief causes of the resignation of Dr. Schacht, as President of the Reichsbank, in March 1930, and he did not return to that office until March 1933.

on bank loans was 10·2 per cent., monthly money cost 8·97 per cent., and the discount rate for commercial bills was 7·33 per cent. Such rates, coming as they did at the end of a period of very active investment, were much above the prospective yield of capital and could only be paid by "distress borrowers", or by public authorities whose zeal for improvement had far outrun their financial discretion. The resources of the capital market were strained by the heavy demands placed upon it by these authorities for housing and other purposes, while the supply of foreign credits had been curtailed by the counter attractions of the New York Stock Exchange. The fact that the Dawes annuities had reached their maximum of 2,500 million RM. in 1929 was also a contributing factor.

Although the placing of fresh orders for future delivery became increasingly rare, the momentum acquired during the previous years still kept the German economy at a high level of activity until the latter part of 1929. But in November of that year there occurred with dramatic suddenness the collapse of the New York Stock Exchange boom which foreshadowed the end of the period of prosperity in the outside world. The reaction on Germany was immediate, and by the end of the year it was apparent to every one that the stage was set for an economic depression.¹

II

THE GREAT DEPRESSION OF 1930-1932

The tendency towards a slump, which had appeared in the latter part of 1929, became much more

¹ This is clearly borne out by the annual economic survey of *Frankfurter Zeitung* written at the beginning of January 1930.

pronounced in 1930. There was a world-wide fall in gold prices, especially of foodstuffs and raw materials, and this was accompanied by a universal contraction of industrial production and money incomes.

Germany in particular was hit by the decrease in the imports of foreign capital, which practically ceased in the second half of 1930. As the reparation annuities had still to be met, the German balance of trade suddenly swung over to become highly active. Whereas exports and imports in 1929 had approximately balanced at 13·5 milliard RM., in 1930 exports were 12 milliard RM. and imports only 10·4 milliard RM., showing a favourable visible balance of 1·6 milliard RM. This process was helped by the great fall in the prices of imports which caused the terms of trade to move sharply in Germany's favour. At the same time the internal market both for imports and for domestic goods contracted as soon as foreign credits ceased, and the whole of the reparation payments, together with accumulated interest amounting to over 1 milliard RM., had to be met out of taxation and the real national income. For a brief moment the classical theory of automatic transfer appeared to be fully vindicated.

Apart from the industries working for the export market (and they had to sell at very low prices) German industry in general was in great difficulties. Nominal wages were only slightly reduced during the latter part of 1930, but real wages continued to rise, and the burden of taxation and expenditure for social services, especially for the maintenance of the growing number of unemployed, was continually increasing. Moreover, the maintenance of their prices by the cartels in the raw material and semi-manufacturing

branches in the face of falling demand, increased the costs of the finished goods industries and forced a still more drastic fall in the prices of all commodities not subject to some form of market control. How important a factor this was during the depression can be seen from the relative movements of the wholesale prices of raw materials and semi-manufactured articles :

TABLE III

RELATIVE CHANGES OF REGULATED AND UNREGULATED PRICES

	Unregulated (" Free ") Prices (1926=100)	Regulated (chiefly Cartel) Prices (1926=100)
Dec. 1930 .	68.3	97.1
Dec. 1931 .	54.0	89.5
Dec. 1932 .	45.7	83.7

The same types of relationship existed also in the case of " free " and regulated prices of consumption goods.

The financial position of agriculture, particularly on the large estates of eastern Germany, was rapidly becoming catastrophic. Despite import duties which kept the internal prices far above the world price level, the " scissors " movement was growing ever more pronounced. Taking 1913 as 100, the price of German agricultural products in 1930 was 113.1, while that of finished consumption goods was 159.3. Above all, indebtedness was assuming vast proportions. By 1930, *i.e.* in only seven years, the pre-war level of agricultural indebtedness had been almost reached, but with a far higher average rate of interest. There were fears of a complete collapse of the mortgage credit institutions, and a general state of alarm over what appeared to be a desperate situation, which had

serious repercussions outside agriculture itself.

Turning to the money and capital market, the decrease of business activity in general and the liquidation of stocks led to easier credit conditions, which enabled the Reichsbank in June 1930 to lower its rate to 4 per cent. (the lowest since 1919) without provoking an outflow of foreign credits, since rates in foreign financial centres had also reached a low level.

In September 1930, however, the Reichstag elections, which showed large gains both to the National Socialist and the Communist parties, shook internal confidence and led to a flight of German capital abroad. It was only due to a rise in the Reichsbank discount rate to 5 per cent., and a special temporary credit of \$35 millions from America, that the outflow was checked, but in the meanwhile the Reichsbank had lost 700 million RM. in gold and foreign exchange holdings.

During the next few months foreign creditors remained alert and uneasy. In March 1931 came the proposal for a customs union of Germany with Austria, which was bitterly opposed by the French, who withdrew considerable funds from Germany as a means of applying political pressure. Soon afterwards a decisive blow was dealt to the already shaken belief in the stability of the post-war economic reconstruction of Europe, by the collapse in May of the most important Austrian bank, the Credit Anstalt. The reaction upon Germany was immediate and disastrous ; foreign creditors at once took alarm and began to recall their German funds on a very large scale. From the end of May to the middle of July 1931 the Reichsbank lost nearly 2 milliard RM. in gold and foreign exchange. President Hoover's proposal on June 21,

for a year's moratorium for Germany's political debts, was only accepted after some delay by the French Government. This postponement of a decision which in any case was inevitable, turned what might have been an alleviation into an aggravation of the situation, since it concentrated the attention of the world on the alarming position of Germany. The withdrawals continued and the Reichsbank saw its reserves dwindle to less than 1 milliard RM. (£50 millions). Although, like the Bank of England a few months later, it raised special credits abroad amounting to 630 million RM., the panic and the magnitude of the sums involved were too great for the flight to be stayed by such measures. Finally it found itself forced to withdraw its support of the very important Darmstädter and National (Danat) Bank, which was compelled to close its doors on July 12. At this news the German public lost its head completely ; there was a general run on all the banks and savings banks, which led to the decision of the Government to close all banks and other credit institutions on July 14, 1931. These were not fully reopened till August 5, and then only subject to a Reichsbank discount rate of 15 per cent., and a lombard (collateral loans) rate of 20 per cent.

On July 15 all foreign exchange dealings were centralised with the Reichsbank, and this was later followed by the official control of the foreign exchanges. Finally, on September 1, a Standstill Agreement to run till March 1932 was concluded with foreign creditor banks for restricting the withdrawal of short-term commercial and financial credits amounting to 6 milliard RM. But it did not cover all foreign liabilities, and considerable sums were repaid from

the beginning of September to the end of 1931, partly from the active balance of trade and partly from reserves of the Reichsbank and other banks and from German assets held abroad. By the end of 1931 the available gold and foreign exchange holdings of the Reichsbank had fallen to 526 million RM. With the aid of the Reichsbank and the Government, which together contributed approximately 2 milliard RM., the banking system was reorganised so as to safeguard depositors and enable at least a minimum of banking activity to be maintained. But credit conditions were extremely difficult owing to the large volume of frozen loans outstanding. The banks, finding themselves under the necessity of repaying foreign short-term loans, endeavoured to call in their credits to their own customers; to some extent they succeeded, but to a large degree they had been acting as intermediaries between foreign lenders of credits in the form of short-term loans and domestic borrowers for long-term purposes. These latter loans could not be called in. Nevertheless, there was an appreciable decline in the volume of credit which intensified unemployment and restricted business still further. The Reichsbank discount rate was lowered to 8 per cent. in September 1931, and to 7 per cent. in December, but the yield of fixed interest securities quoted on the Berlin Stock Exchange rose to 9 per cent. and bank loans cost over 10 per cent. Under these conditions investment dwindled to negligible proportions and business activity fell off alarmingly.

It was chiefly the export trade which continued in some measure to maintain employment; the balance of trade moved still further in Germany's favour, exports being 9·6 milliard RM. in 1931 and imports

6·7 milliard RM., compared with 12·0 and 10·4 milliard RM. respectively in 1930.¹ A new blow fell, however, on the German economy owing to the abandonment in September 1931 of the gold standard by England and a number of other countries, while at the same time there was a great extension of foreign exchange controls, quotas and import restrictions throughout the world. There was an immediate and serious deterioration in Germany's power of competition in world markets, which left her faced by two alternatives: either to devalue her own currency, or to meet the situation by an intensification of deflation.

Many German economists, both at the time and later, were of opinion that devaluation would have been the wisest step. But there were a number of objections which weighed heavily with the Government of the day. The memories of 1922-23 were still fresh in the public mind, and this psychological factor was of very great importance, above all, under a weak Government; the United States, France and most of Germany's European neighbours were still on the gold standard, so that there was no question at that moment of a general devaluation; also the immediate result of the devaluation undertaken by a number of Germany's creditors had been to lower the nominal value in terms of her own currency of an

¹ Owing to the price fall, foreign trade declined much less in terms of volume than in terms of prices. Expressed in terms of the prices of 1928, the movement was as follows:

	Milliard RM.			
	1928	1929	1930	1931
Exports .	12·3	13·7	13·1	11·8
Imports .	14·0	13·5	12·0	10·2

important part of her foreign liabilities, and this advantage (apparent rather than real) would have been sacrificed if Germany also had devalued.

The Brüning Government regarded the above objections to devaluation as decisive, and decided to adopt the alternative course of accelerating the process of deflation. Already in 1930 important measures in this direction had been adopted, largely in order to balance the budget. At the end of 1930 all official salaries were reduced by 6 per cent. and in 1931 there were further cuts which brought the total reduction to 21 per cent. The tax on wages and salaries had been raised from 1 per cent. to 5 per cent. with corresponding increases in the assessed income tax; the sugar tax was doubled, and the turn-over tax raised from 0.75 to 2.0 per cent.; a large number of other taxes were imposed and unemployment benefits heavily reduced, though in spite of this latter reduction unemployment grew so fast that expenditure on relief rose from 1.8 milliard RM. in 1929 to 2.7 in 1930 and to 3.2 milliards in 1931.

By an Emergency Decree of December 8, 1931, Dr. Brüning, in the face of the bitter opposition of trade unions and of a large section of the Reichstag, enacted the following measures: all "tariff" wages were reduced to the level of January 1927¹; there was a 10 per cent. cut in all prices regulated by cartel and similar agreements, and in prices of all proprietary articles, as well as in house rents, railway fares and freights, municipal services, etc.; and interest rates on all classes of bonds were lowered by at least 2 per

¹ This involved cuts ranging from 10 to 15 per cent.; as a result of the Emergency Decrees and of wage reductions negotiated by employers, the average level of hourly tariff wages in July 1932 was 20 per cent. below the peak level of 1930.

cent. A Commissioner for the Supervision of prices was at the same time appointed in order to see that the price cuts were carried through and that they reached the final consumer ; he also exerted a strong downward pressure on the "free" or unregulated prices, mainly by ensuring that decreases in wholesale prices (which were falling fast) were reflected in corresponding falls in retail prices. Within three months of his appointment he was able to announce that the cost of living had fallen on the average by at least 8 per cent.

This extremely drastic interference in the normal working of a capitalist economy may have brought nearer a subsequent and ultimate adaptation of the economy as a whole to the crisis conditions which prevailed during 1931, but its immediate effects were mainly to accentuate the depression. The general cuts in wages and prices, which took no account of the special circumstances of individual branches of industry or of varying elasticities of demand, had very unequal effects on the different industries, and did not conduce to the greater profitability of enterprise. Wage costs in particular were not lowered by this measure, and some light on this is thrown by the Table¹ on p. 26.

Both wages and prices continued to fall after the enforced reductions of December 1931, and the combination of slumping prices, wages and profits, with rising unemployment, led to a very large reduction in total money incomes and thus in the effective demand

¹ This table lends support to Mr. Keynes's thesis that (apart from possible effects on the rate of interest) all-round reductions of money wages are not likely to result in reductions in real wages, or in lower wage costs relative to the value of output. Cf. his *General Theory of Employment, Interest and Money*, chap. 19.

TABLE IV
WAGE AND PRICE CHANGES

	Tariff Wage Rates	Wholesale Prices of Finished Industrial Commodities	Relation of Wages to Prices
1928	100	100	100
1930	107	95	113
1931	102	86	119
1932	90	74	122

for the output of the community. In fact for the whole period of 1930 to August 1932 deflation was continuously at work: every contraction in employment or income in one part of the economy led to a further contraction of employment and income elsewhere. The national income, which had been 76·0 milliard RM. in 1929 was only 57·5 in 1931 and 45·2 milliard RM. in 1932, while the income from wages and salaries fell from 43·0 milliard RM. in 1929 to 33·4 in 1931 and to 26·0 milliard RM. in 1932.

Throughout the first half of 1932 the cumulative forces of decline continued to operate, although the rate of decrease of activity was slower than in 1931. Unemployment, which for the average of 1931 had been 4,520,000, rose to 5,880,000 for the average of the first six months of 1932; the State insurance scheme was quite incapable of meeting the cost of relieving the unemployed, and the vast majority received a mere pittance from the local authorities subsidised by the Reich.

In industry the greatest volume of contraction was experienced, as would be expected, in the investment goods industries. Taking 1928 as 100, the output of production goods was 61·0 in 1931 and 45·7 for the

average of 1932,¹ while consumption goods output was 86·5 in 1931 and 74·0 in 1932. Disinvestment had been taking place in working capital during the depression, as can be seen from Table V, which shows the annual total of aggregate gross and net investment and of changes of stocks :

TABLE V
GROSS AND NET INVESTMENT AND STOCKS²

		Milliard RM.						
		1926	1927	1928	1929	1930	1931	1932
Gross investment *	.	10·7	13·0	13·7	12·8	10·4	6·4	4·2
Net investment	.	4·8	6·5	7·0	5·8	3·5	0·1	-1·6
Changes of stocks †	.	2·0	4·4	2·6	-1·3	-3·8	-5·1	-1·9

* Gross investment = net investment (new additions to fixed capital) plus renewals of fixed capital. For 1932 it is estimated that 5·8 milliard RM. were required for renewals, while actual investment was only 4·2 milliard RM. in all.

† It must be borne in mind that, owing to the large fall in prices from 1930 to 1932, the decline in the volume of stocks was much less than the decline in terms of values.

It has been estimated that the excess of costs over receipts from sales in German industry was 2·2 milliard RM. in 1932, and as this had to be financed largely out of sales of securities and other assets, it is not surprising that even the volume of replacements diminished in that year.

Reference has already been made to the position of agriculture. Bad as it had been in 1931, it deteriorated still further in 1932. During the period 1926 to 1930 the German people had imported annually large quantities of foodstuffs, and in the earlier stages of depression the decline of consumption had been concentrated mainly on imported foods; but in 1931, and

¹ Comparing 1932 with 1929, the output of iron and steel fell by 75 per cent., of machinery by 71 per cent., and of building materials by 74 per cent.

² *Statistisches Jahrbuch für das Deutsche Reich*, 1937, p. 539.

still more in 1932, the full force of the contraction of incomes and purchasing power was felt by the German farmers. Although they benefited by the reduction of wages and internal costs, as a result of the Emergency Decrees, this was not nearly sufficient to offset the decline in their sale proceeds, which had fallen from 10 milliard RM. in 1928 to 6·5 milliard RM. in 1932. As it has been estimated that more than one-fifth of the products of industry were normally sold to those engaged in agriculture, the decline in agricultural incomes contributed in its turn to contract the market for industrial goods.

One of the most serious aspects of these crisis years was the state of the public finances. It was difficult to curb suddenly the borrowing habits engendered by the earlier years of prosperity, and we find that the total of public indebtedness increased by as much as 2·7 milliard RM. from March 1930 to March 1931. In the following year, however, borrowing was brought effectively to an end by the drying up of the capital market ; but by then the volume of indebtedness had assumed enormous proportions, and the municipalities in particular were crippled by the interest payments they had to meet. At the same time it may be noted that the consequent cessation of house-building and of contracts for public utility services, removed one of the few remaining supports of the production goods industries and threw a large number of additional workers out of employment. Public income and expenditure perforce followed the trend of the national income. The total revenues of all public bodies (Reich, States and Communes) fell from 19·9 milliard RM. in 1930 to 16·5 milliard RM. in 1931 and 13·8 milliard RM. in 1932, and this in spite of an increase in taxes

in 1930 and 1931, which the Finance Minister of the Reich had estimated would in a normal year have brought in an additional 2.5 milliard RM. Expenditure also was drastically reduced from 20.9 milliard RM. in 1930 to 17.0 milliard RM. in 1931 and 14.5 milliard RM. in 1932. With public loans giving an average yield of 7.7 per cent. in 1931 and 9.9 per cent. in 1932, it was impossible to budget for a large deficit, while the Reichsbank was precluded by its statutes from lending money to the Reich. Although the reduction of interest rates enforced by the Emergency Decree of December 8, 1931, had afforded some relief to existing debtors, it did nothing to lower the rates for new loans. The confidence of lenders was badly shaken owing to the fear that the operation might be repeated at some later date, and in actual fact the prices of fixed interest securities adjusted themselves to the new rates in such a way as to leave yields, and therefore interest rates to new borrowers, higher after the conversion than before it.

The state of the public credit, indicated by the yield of Government and municipal loans, was in contrast with the fact that the intensification of depression in 1932 had enabled the Reichsbank to lower its rate from 7 per cent. at the end of 1931 to 5 per cent. in the middle of 1932, while short-term rates in general fell by approximately 2 per cent. But even here the absolute level remained high (over 9 per cent. for commercial bank loans in 1932), and the decline in output, together with the illiquidity of the banks following on the crisis of July 1931, restricted severely both the supply of and the demand for credit. Private savings in particular had almost vanished, except for the hoarding of notes which had proceeded on a large

scale after the banking crisis ; and from June 1931 to June 1932 the withdrawals of deposits from the savings banks exceeded new deposits by 2·3 milliard RM.

The lowest level of general industrial and economic activity was reached in August 1932, which marked the bottom of the slump.¹ From then onwards there were a number of indications that the worst was over and even that some slight degree of recovery could be anticipated. Stocks of finished commodities had fallen to so low a figure that a certain amount of fresh orders had to be placed with manufacturers, while the investment goods industries also received some stimulus from an increase in replacements effected. In May 1932 the von Papen Government, which had replaced that of Dr. Brüning, proceeded to issue tax certificates and to place contracts for public works, and initiated other measures intended to stimulate investment and increase employment.² The compulsory reduction of interest rates by the Decree of December 8, 1931, and the decrease in indebtedness to the banks resulting from the liquidation of stocks, had also improved the financial position of debtors in industry and agriculture. Finally conditions abroad were beginning to look less depressing, and the Lausanne Agreement of July 1932,³ which represented (or appeared to represent) the ultimate stage in the education of Germany's war-

¹ The author, who visited various parts of Germany in the spring and summer of 1919 and again in the autumn of 1932, found many similarities in the condition of the country at the two periods—the factories idle, the streets full of beggars ; and unemployment, poverty and decline everywhere apparent.

² These measures are discussed in Chapter II, pp. 32-8 and 43-5.

³ Under this agreement there was to be a final payment of three milliard RM. in the form of a bond issue, but it was left to the Bank of International Settlements, after a moratorium of three years, to decide on the right moment for placing the German bonds on the market.

time creditors, contributed to a better condition of public confidence.

There was no question of a real recovery in the late months of 1932, but rather of a cessation of the vicious spiral of cumulative contraction and deflation which had dominated the economic life of Germany during the past three years.

The movements in this period in some of the most important indices of economic activity are shown in Table VI below, which is in continuation of that given on page 14 above :

TABLE VI
ECONOMIC INDICES

	National Income (Mrd. RM.)	Wholesale Prices (1913=100)	Industrial Production (1928=100)	Imports (Mrd. RM.)	Exports (Mrd. RM.)	Employment (000's)	Unemployment (000's)	Currency Circulation (Mrd. RM.)	Wage Rates (1928=100)
1928	75.4	140.0	100.0	14.0	12.3	18,000	1,353	5.8	100.0
1929	76.0	137.2	100.1	13.5	13.5	17,870	1,892	6.0	105.5
1930	70.2	124.6	87.0	10.4	12.0	16,530	3,076	5.9	107.3
1931	57.5	110.9	70.1	6.7	9.6	14,390	4,520	5.8	101.9
1932	45.2	96.5	58.0	4.7	5.7	12,580	5,575	5.8	86.7

CHAPTER II

THE FIRST FOUR-YEAR PLAN, 1933 TO SEPTEMBER 1936

GERMANY was still in the trough of depression when the National Socialist régime under Herr Hitler came into power on January 30, 1933, and faced the problem of carrying out its pledges to cure unemployment. At that moment there were six millions on the official unemployment registers, and to these must be added nearly another million of non-registered unemployed. The Government was confronted with a completely disorganised capital market with very high rates of interest, a banking system which was dominated by the need to maintain and improve its liquidity, a negative amount of net investment and saving, and a deplorable condition of all public finances.

THE PRE-HITLER RECOVERY MEASURES OF VON PAPEN AND VON SCHLEICHER

The National Socialists, however, took over from the two immediately preceding Governments a number of measures which were to prove exceedingly useful in its task of combating unemployment. In the first place, by a decree enacted by the von Papen Government in September 1932, power had been taken to issue tax remission certificates (*Steuergutscheine*) to taxpayers in respect of their tax payments

for the financial year 1932-33. The taxpayer received a certificate representing from 75 to 100 per cent of his actual payment on account of a number of the most important taxes for which he was liable. He, or any holder, was entitled to use the certificates to meet future liabilities for taxation in any of the years, 1934-35 to 1938-39, while the Government pledged itself to redeem the certificates at the rate of one-fifth of the issued amount in each of the years 1934 to 1938, together with interest at 4 per cent.¹ The immediate and direct relief to the taxpayer arose from the fact that he could sell these certificates on the Stock Exchange (they were exempt from stamp duty) and could use the proceeds in his business or for any other purpose. At the time of their issue there was no other short-dated investment on the market which was free from risk of capital depreciation, and so they were a very acceptable investment for the banks and money market. As it was contemplated that 1.5² milliard RM. would be issued under these provisions, it can be seen that the sum involved was considerable. In addition, the Finance Minister was empowered to issue tax certificates (for an estimated amount of 700 million RM.) directly to any employer who could show that he had increased the number of his workers as compared with the

¹ This obligation has in fact been carried out.

² For the whole period 1933-38 the English reader who wishes for purposes of comparison to convert German marks into English pounds, will do well to take the old rate of 20 RM. = £1, rather than the nominal rate of about 12 RM. = £1. Expressed in terms of gold, English wholesale prices have remained below German wholesale prices ever since 1931 (taking 1913 = 100, English wholesale prices in terms of gold were 62 in 1932 and 69 in April 1937, but German wholesale prices were 97 in 1932 and 106 in April 1937); while on the whole the German retail price level seems to have maintained much the same relation to the English retail price level as before the British devaluation of September 1931. Hence for comparative purposes 1.5 milliard RM. may be taken as equivalent to £75 millions.

number he was employing before the scheme came into operation. The certificates were to be granted at the rate of 100 RM. quarterly for each additional worker.

In the second place, Herr von Papen in the summer of 1932 drew up programmes for the expenditure of 740 million RM. on housing, house repairs, land improvement, and capital expenditure by the Railways and the Post Office. This was followed under the von Schleicher Government by the appointment in December 1932 of a Commissioner for the Creation of Employment, who drew up and issued on January 28, 1933 (two days before the National Socialists took over the Government) the so-called "urgency" programme for the expenditure of 500 million RM., chiefly on roads, housing, public utilities and inland water transport. The chief novelty here, however, was not the nature of the public works or the amounts involved. It consisted in the method of finance adopted. In the existing state of the capital market long-term loans, even if placed by the Government, were an impossibility. The banks were extremely illiquid, their portfolios were full of frozen credits, and they were heavily in debt to the Reichsbank. The banks could not with their existing resources grant additional loans on any considerable scale. There remained only the Reichsbank as the ultimate repository of the supply of money and credit. The Reichsbank in turn was bound by its own statutes; it could not pursue an active open-market policy, nor could it discount bills on behalf of the Government. It could, however, discount commercial bills without limit, and the problem would be solved if the works to be undertaken under the officially sponsored programmes

could be financed by a type of paper which the Reichsbank could discount. Accordingly municipalities and other public and semi-public bodies were encouraged to place orders for new houses, roads, etc., incurring in the process a debt which was to be repaid by them over periods ranging up to twenty-five years, according to the probable length of life of the investment. The orders were given to the ordinary firms engaged in this type of business. The contractors in turn drew bills of exchange for the amounts of the contracts (*i.e.* cost including profits). These bills were then accepted by certain special financial institutions, notably the Deutsche Gesellschaft für Oeffentliche Arbeiten (Oeffa),¹ the Deutsche Rentenbank-Kreditanstalt, and the Deutsche Bau- und Bodenbank. Once the bills had been accepted, they were discountable by any of the ordinary banks or the Reichsbank and, if discounted by a commercial bank, were re-discountable with the Reichsbank. When discounted by the Reichsbank the rate was fixed at 4 per cent. but the commercial banks only obtained the ruling market rate of discount, which was usually from a half to a quarter of one per cent. below the Reichsbank rate of 4 per cent. In either case the Reich bore the cost of discounting, *i.e.* it was a charge on the budget. The employment creation bills (as they came to be called) had a nominal currency of three months, but could be prolonged indefinitely until it was convenient for them to be redeemed or consolidated. The contractor was given a large bundle of bills, and when each fell due he would

¹ "Oeffa" had been founded in 1930 to administer the loans created out of the use of unemployment insurance funds to finance productive unemployment relief. "Oeffa" has been in process of liquidation since March 1937, as it is regarded as having completed its task.

detach the bill bearing the next serial number in the same series and forward that in replacement of the one which was just reaching its term. As a rule the bills were drawn by the contractor or the public body which had placed the contract, and then accepted by one of the special banking institutions mentioned above ; but it was also not uncommon for the contractor to draw directly on Oeffa or the Bau- und Bodenbank, etc. In any case the management of the long-term loan side of the operations—the fixing of interest and sinking fund rates to be paid by the borrower — was in the hands of the acceptance houses.

It may be noted that both the von Papen and the “Urgency” programmes (particularly the latter) were largely intended to enable necessary works or repairs and replacement, which had been neglected during the depression owing to lack of finance, to be carried out. Apart from labour, expenditure on actual materials had fallen from 7·6 milliard RM. in 1929-30 to 4·1 milliard RM. in 1932-33. Efficiency and — as in the case of the railways — even safety were being sacrificed, while employment and output in the industries supplying these capital goods were correspondingly reduced. Every consideration of need and urgency was present and it was only the lack of finance which had prevented the work from being carried out.

Apart from public works and the issue of tax certificates there was a curious expedient which had only a short life. By a Decree of September 5, 1932, employers who took on additional workers were empowered to lower the contractual wages for the 31st to the 40th hours of their employees' working

week. There was a graded scale, such that for increases in employment ranging from 5 to 25 per cent. an employer could decrease wages for the 31st to the 40th hours of work by 10 to 50 per cent., but subject to the limit of a maximum reduction of $12\frac{1}{2}$ per cent. of the total weekly wage. As might be expected, this measure caused serious inequalities as between different employers, and affected their competing power; it also gave rise to a great outcry on the part of the trade unions, and was repealed by von Schleicher in December 1932. Somewhat similar difficulties were experienced in regard to the issue of tax certificates to employers taking on additional workers, for the subsidisation of employment damaged the interests of all those who were not in a position to take advantage of it. Hence this method was soon curtailed, 500 million RM., out of the 700 million RM. of certificates originally intended for directly subsidising new employment, being transferred to the Reichsbank to act as security for the credits granted to finance public works under the "urgency" programme of January 1932. This type of subsidy was finally abandoned in April 1933.

Two other measures deserve mention. An important form of "substitute" employment had been developed during the course of the preceding years in the shape of voluntary labour service, which had first received legal recognition in 1931. It was much expanded in 1932, and by the end of 1932 there were some 250,000 young men engaged in this form of service, the funds being provided partly out of the budget of the Reich, but mainly from the resources of the Unemployment Insurance Fund. The work performed consisted for the most part of land drainage

and other types of land improvement, and those engaged in it received their food and equipment, but otherwise were unpaid.

Finally in September 1932 a special step was taken to assist agriculture by the compulsory reduction of the interest rates on all agricultural mortgages by 2 per cent., subject to a minimum rate of 4 per cent.

Such, then, were the tools that had been forged by its predecessors and which were available for use by the Hitler Government.¹

THE SCOPE OF THE FOUR-YEAR PLAN

The National Socialists on coming into office were not content merely to expand the system of public works and to carry on with the issue of tax certificates; they took the view that, unemployment being a hydra-headed monster, the attack must be as varied as the enemy itself.

It was on May 1, 1933, that Herr Hitler outlined his policy of a Four-Year Plan for the abolition of unemployment, and this was given effect by the Law for the Reduction of Unemployment of June 2, 1933. The main provisions of this measure were as follows :

In the first place, the so-called "Reinhardt Programme" provided for the expenditure of one milliard RM., to be financed by the issue of employment creation bills, for such purposes as housing, roads, agricultural and suburban settlement, river regulation, public utilities, etc. The bills were to be redeemed as to one-fifth of the total in each of the years 1934 to

¹ For an estimate of the influence of the recovery measures down to the end of 1932, see below, pp. 43-5.

1938, and a sinking fund was established for their redemption.

Secondly, sums expended out of profits for replacements and renewals in industry and agriculture were exempted from income-tax, corporation tax and the tax on trading profits.¹

Thirdly, income-tax abatements were allowed in respect of the employment of female domestic servants. Each domestic servant up to three counted for purposes of rebate as an addition to the number of children in the taxpayer's family.

Fourthly, marriage bonuses up to 1000 RM. were made available for each newly married couple, on condition that the wife did not resume employment. In practice this meant in a great many cases that the husband stepped straight into his wife's job, and in both ways the eligibility of the unmarried girls was much enhanced. The bonuses took the form of loans without interest, repayable at the rate of one per cent. per month, but the repayments diminished with each child born to the marriage. The loans were financed by a special tax on all unmarried persons, which was later on merged in the general income and wage tax.

By the same law the money and capital markets were completely subjected to the control of a committee under the chairmanship of the President of the Reichsbank (Dr. Schacht).

A separate law, also passed in June 1933, instituted a grandiose scheme for the construction of 7000 km. of Reich motor roads at an estimated cost of 3·5

¹ This provision was extended in October 1934, by allowing all expenditure on capital equipment, the estimated length of life of which did not exceed five years, to be deducted from the net revenue of the undertaking as assessed for taxation. This exemption was withdrawn at the end of 1937.

milliard RM. This also was to be financed by the issue of employment creation bills, while the recurrent expenses of the repair and upkeep of the roads was met by raising the general tax on transport and by additional taxes on motor oil and lubricants. These roads were intended partly to popularise motoring in Germany (the taxation on all new motor cars had already been abolished in April 1933) and so to stimulate the motor car industry, and partly to provide a large-scale employment programme spread over a number of years. The employment in subsidiary industries, such as iron and steel, was very considerable, as there are no level-crossings along their whole length and all entries and exits follow the line of traffic, with the result that on the average there is more than one bridge per kilometre of road.

In September 1933 the Second Reinhardt Programme was published. This consisted of 500 RM. from the budget of the Reich as a subsidy for house repairs and conversion of houses into flats, and was granted on condition that the householder spent from two to four times the amount of the subsidy out of his own or borrowed resources. He was further encouraged to make this expenditure by an allowance of 4 per cent. for six years on the capital thus invested. It has been estimated that during the winter of 1933 some two milliard RM. (including the subsidy) were expended on repairs and alterations to dwellings.

Account must also be taken of the special capital outlay programme of the Railways and the Post Office, which amounted to 560 million RM. in 1933 in addition to the sum of 340 million RM. provided in 1932.

Adding together all the programmes from the middle of 1932 to the end of 1933, we find that the

total allocation of public funds (including employment creation bills) was 3,800 million RM., of which 1,400 million RM. had actually been expended.¹ This is apart from the tax remission certificates, the circulation of which increased by 952 million RM. during 1933, and it also excludes the new motor roads.

Under previous Governments a certain amount of labour had been taken off the market by various forms of substitute employment, such as voluntary labour service and emergency relief works. The Hitler Government made labour service compulsory, established a land service and greatly increased the number employed on emergency relief work. The total of substitute employment (employment for no, or very small, money wages) increased by 360,000 in the last quarter of 1933 as compared with the last quarter of 1932. The greater part of this substitute employment was financed by the Reich Unemployment Board out of the larger income from contributions and the smaller expenditure on benefits, which accompanied the growth of employment in general.

As part of the recovery measures taxation was reduced in a number of cases where it was felt that this was in the interests of productivity and investment, or where it was desired to lessen the burden on a particular section of the community. The most important reduction was the halving of the turn-over tax on agriculture, while the land tax (*Grundsteuer*) was also lowered. The turn-over tax was further modified so as to facilitate the holding of stocks; industrial concerns were given tax abatements in respect of expenditure on repairs to their buildings;

¹ Supplement to Weekly Report of the Business Research Institute, May 16, 1934.

new small houses were exempt from taxation; and power was given to exempt from taxation for a number of years enterprises which were engaged in developing new processes, if these were held to be of national importance. The Finance Minister estimated the total loss of revenue in a normal year of the tax reduction of 1933-34 at 1,135 million RM. In general, however, taxes were maintained at the very high level which they had reached during the depression years, and no attempt was made to stimulate economic activity by lowering direct or indirect taxation as a whole. The only considerable exception to this was the continued issue of tax certificates, the circulation of which rose to a maximum of 1,363 million RM. in March 1934, and thereafter declined as they were paid off.

Summarising the above schemes, it can be seen that they fall under four main heads: (a) Measures for increasing the demand for labour directly by means of public works. (b) Measures for increasing the demand for labour indirectly by stimulating private investment through loans, subsidies, tax remissions, etc. (c) Measures for reducing the supply of labour in the ordinary labour market by such means as marriage loans, tax remissions for female domestic servants, the withdrawal of women from industrial employment, etc. (d) Measures for increasing consumption, such as marriage loans, the *Winterhilfe* or collection for those in poverty, together with other contributions and levies which brought in large sums. In the case of the *Winterhilfe* alone 347 million RM. were distributed in money or kind in the winter of 1933-34. To some extent, of course, these charitable funds merely represented a redistribution of expenditure, but they were also partly at the expense of individual

savings which would not otherwise have been invested at this time.

Over and above all the positive expedients which have been set out in the foregoing pages, there was a tremendous personal pressure exerted by the Government and the party to increase, or at least maintain, the number of their employees. Employers who received public contracts were required to take on more workers, even though it was not profitable. Employment was spread by a reduction of working hours and permission to dismiss workers was refused unless it could be shown that financial disaster threatened. The whole of the forces of propaganda and public opinion were mobilised to encourage the absorption of the unemployed, and it must be recognised that employers as a whole responded well to the appeals that were made to them.

In considering the results of the ambitions and many-sided efforts for the cure of unemployment which were embodied in the Four-Year Plan, three periods must be distinguished — July 1932 to May 1933, June 1933 to December 1934, and December 1934 to September 1936.

JULY 1932 TO MAY 1933 : THE LEGACY FROM THE PAST

This first (pre-Four-Year Plan) period was characterised by the typical phenomena of a depression which succeeds a phase of acute deflation. Wholesale prices, which had continued to fall during the second half of 1932 were practically stable during the first half of 1933. The index of industrial production (1928 = 100) rose from its lowest point, 60·0, in July

1932, to 62.1 in December 1932 and to 68.5 in May 1933, while the improvement in the output of production goods was considerably greater than in that of consumption goods. Stock exchange share prices had been rising slowly since July 1932. It is true that unemployment amounted to 5,900,000 for the average of the first five months of 1933, as compared with 5,300,000 for the average of July to December 1932, but it was showing more than the usual seasonal decline in April and May 1933.

Even as early as the beginning of 1933 the Reichskreditgesellschaft could write in its half-yearly report on Germany's economic situation at the turn of 1932-1933: "In the second half-year (1932) there were unmistakeable signs of a turn for the better both in Germany and in most other parts of the world. In certain industries production increased, in others the fall in output was checked." By May 1933 the indications of recovery were much more marked.

The question arises how far this could be attributed to the public works and other schemes put into operation by the two Governments which preceded Hitler. It must be admitted at once that the direct and positive effect of these schemes had been very small. From the moment of initiation of a public works' programme to its actual execution a considerable time must necessarily elapse, and in fact only an insignificant part of the funds allocated for public works had been carried out by May 1933. Of greater immediate importance was the issue of tax certificates, the circulation of which had risen from 263 million RM. in December 1932 to 644 million RM. in May 1933. Their chief contribution was to bring about a much-needed improvement in the

state of liquidity of the business world. As, however, the banks were still doing their utmost to reduce the amount of their outstanding loans, the issue of tax certificates did not do much more than offset the deflationary effects of a process of credit contraction which was still continuing. In other words, their main use was to diminish indebtedness to the banks and to lessen the pressure to reduce stocks still further, but not to finance "new" investment. It none the less remains true that the deliberate abandonment of the policy of deflation, which was implied by the adoption of these schemes, had an important effect on business psychology, even in spite of the very unfavourable political situation in the latter part of 1932. The more positive results of these early measures were experienced later in 1933 and 1934, when they redounded to the credit of the National Socialist Government.

JUNE 1933 TO DECEMBER 1934

It was in this period that the creation of employment by the means described in the earlier paragraphs of this chapter bore its full fruit.

Employment. — The changes in employment and unemployment since June 1932 can be seen in Table VII¹ on page 46.

It may be noted that the total of columns 1 and 2 show that there was a considerably greater rise in aggregate employment than corresponded to the decrease in the figures of unemployment. This is to be accounted for by the fact that there was a large volume of "invisible" unemployment at the bottom of the slump (not far short of one million), which consisted

¹ *Konjunktur-Statistisches Handbuch*, 1936, p. 12.

of persons who were out of work but were not in insured occupations. Many of these, handicraft workers and others, were the first to benefit from

TABLE VII
EMPLOYMENT AND UNEMPLOYMENT ¹

	Total of "Regular" Employment * (000's)	Total of "Substi- tute" Employment (000's) †	Unemployment (000's)
June 1932	12,730	180	5,476
Jan. 1933	11,470	260	6,014
June 1933	13,100	530	4,857
Jan. 1934	12,970	830	3,773
June 1934	15,010	800	2,481
Dec. 1934	14,540	610	2,605

* "Regular" employment covers all those engaged in ordinary employment at standard wages. It is well to point out here that the official German figures of employment include only those employed wage earners and salaried employees who come under the sickness or unemployment insurance schemes. They therefore do *not* include officials, those in the labour service or in the defence forces, or independent workers in industry, handicraft, trade and agriculture.

† "Substitute" employment covers those engaged in labour service (from 200,000 to 250,000 during the above period), land service, and on relief works, and obtaining full maintenance, but not money wages.

improved conditions in the labour market. The table shows a decline of $2\frac{1}{4}$ millions in unemployment between January 1933 and June 1933, but of this number not more than 600,000 represented a genuine improvement in conditions, the remaining 1,600,000 being due to seasonal causes. By the middle of September 1933, however, the real, as distinct from the seasonal decline in unemployment had grown to 1,200,000; while twelve months later (September 1934) unemployment had fallen off by a further 1,570,000.

The great importance of "substitute" employment in the reduction of the total number shown as unemployed will be shown from the above table. The average number of those in "substitute" employment throughout 1934 was 800,000, and in both March and April, the number exceeded one million.

¹ *Konjunktur-Statistisches Handbuch*, 1936, pp. 12 and 16.

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Investment and the Growth of the National Income. — Gross investment, which had been only 4·2 milliard RM. in 1932 and 5·1 milliard RM. in 1933, rose to 8·2 milliards in 1934. In both 1932 and 1933 net investment had been a negative amount, as during these years total investment was considerably below the level necessary for normal replacements to be carried out. The national income rose from 45·2 milliard RM. in 1932 to 46·5 milliards in 1933 and to 52·5 milliards in 1934. The rise of income from 1933 to 1934 of 6 milliard RM. (13 per cent. increase) was thus associated with an increase of gross investment of 3·1 milliards.

It is of interest to compare these figures with those of the previous German recovery. In 1926-27 there was an increase of gross investment of 2·3 milliard RM., while the national income rose by 8·1 milliards. Between 1927 and 1928 there was a further rise of gross investment by 0·7 milliard RM., while income rose by 4·6 milliards. On the other hand, between 1928 and 1929 a *decline* of gross investment by 0·9 milliard RM. was accompanied by a *rise* in national income of 0·6 milliard RM. It is clear that the relation between income and gross investment is not a simple one, and in interpreting these figures account must be taken, *inter alia*, not only of rising prices from 1926 to 1928, and of rising wages from 1926 to 1929, but also of the large import of foreign capital which characterised these years. Recent economic work on the trade cycle has brought into the forefront the concept of the "multiplier".¹ This is used in two forms —

¹ Cf. R. F. Kahn, "The Relation of Home Investment to Unemployment", in the *Economic Journal*, June 1931; J. M. Keynes, *The General Theory of Employment*, p. 113 ff.; J. Robinson, *Introduction to the Theory of Employment*, pp. 18-27.

the “investment multiplier” and the “employment multiplier”. The first of these expresses the relation between a given increase in gross investment and the resulting increase in total income; the second measures the ratio of the increment of total employment which is associated with a given increment of primary employment in the investment (production goods) industries. Now in both senses of the multiplier, but especially in the second, the “employment multiplier”, the figures show a relatively low value for the years 1932 to 1934. For this there were a number of reasons, some of which were peculiar to this period, while others continued to operate in subsequent years.

(1) There was inevitably a time-lag between the growth of output in the production goods industries (which were chiefly favoured by the various programmes for creating employment) and the growth of income and with it expenditure on, and employment in, the consumption goods industries. So long also as there were considerable stocks in existence the rate of creation of new income was retarded.

(2) The official policy of stabilising prices, and above all, wages, prevented the upward swing of activity from being reflected in higher money incomes per head.

(3) The early public works’ schemes were what the Germans call “labour intensive”, *i.e.* they were designed so as to give the maximum amount of employment for a given expenditure of public money. They consisted largely of works using unskilled labour, and the workers employed were mostly paid according to the lowest wage scales.

(4) The large numbers of those engaged in labour service, emergency relief works and other forms of substitute employment (800,000 for the average of

1934) were paid in kind rather than in money, so that their incomes were not added to the money total of incomes from wages and salaries. Moreover, those who were transferred from the rolls of the unemployed into normal employment, ceased to receive unemployment benefit or relief. Thus the total expenditure on relief of the unemployed fell from 3,150 million RM. in 1932-33 to 2,400 millions in 1933-34 and to 1,700 millions in 1934-35.

(5) The preceding period of depression and shrinkage of incomes had left those engaged in industry, commerce and agriculture, and many other income groups, heavily in debt to the banks. Hence the first and most urgent uses to which new individual incomes were put were to pay off past debts, to restore cash balances to a reasonable figure, and to replace savings which had been consumed.

(6) Very considerable repayments of foreign credits and loans were still being made during this period. The total of Germany's foreign indebtedness fell from 19.5 milliard RM. in September 1932 to 13.1 milliards in February 1935, and though part of this fall was accounted for by the American devaluation of 1933, and partly by the buying up of "blocked marks" at a heavy discount, there was also a large real transfer of German resources. To this must be added the interest service on such portion of the foreign debt as was not affected by the transfer moratorium.

Some indication of the order of importance of the various public works and other programmes which contributed to bring about the revival of investment can be obtained from Table VIII : ¹

¹ These were marks owned by foreign creditors of Germany, which could not be withdrawn or exchanged directly for foreign currencies.

TABLE VIII

FUNDS FOR THE CREATION OF EMPLOYMENT, TO DECEMBER 31, 1934¹

	Million RM.		
	Allocated	Projects Approved	Expended
Employment creation programmes of the Reich .	1888.0	1834.8	1536.5
Budget of the Reich .	1135.0	1132.3	727.6
Employment Board (relief works, labour service) .	575.0	574.9	431.8
Railways . . .	991.0	991.0	991.0
Post Office . . .	111.0	111.0	111.0
Reich motor roads . .	350.0	350.0	166.0
Total .	5050.0	4994.0	3963.9

When it is remembered that the earliest of the public works programmes dates from the summer of 1932, and that by far the greater part of the sums actually expended to the end of 1934 arose out of schemes which were only initiated during the course of 1933, the rapidity with which the various projects were executed can be appreciated. Most of the undertakings were either immediately, or sometimes rather remotely, productive. But this was not universally true, as there were undoubtedly cases of what the Germans term *Pyramidenbau* (building of pyramids), *i.e.* work of no real value, merely manufactured in order to give employment. It was felt that at a time when there was a tremendous amount of unemployed resources, the loss involved in work of this nature was less than the advantage which resulted from the provision of the employment. Both here, and in the large expansion of substitute employment, is apparent the desire of the Government to reduce "statistical" unemployment as quickly as possible. To some extent

¹ K. Schiller, *Arbeitsbeschaffung und Finanzordnung in Deutschland*, p. 155.

political considerations entered in ; the new régime was still very young, and the more dramatic the reduction in unemployment could be made to appear, the greater was the gain in prestige.

It is a moot point how far the German recovery would have proceeded in the absence of all this State-fostered investment and employment. Judging from the contemporary improvement in economic conditions in the world as a whole, and from the fact that the German trade-cycle was already turning upwards at the end of 1932, there can be little doubt that there would have been an appreciable measure of revival in Germany under the normal operation of economic forces. But it is very improbable that anything like the actual recovery would have taken place, having regard to the conditions prevailing in the money and capital markets in 1933.

The Finance of Output. — Prior to October 1933, when the volume of employment creation bills was still fairly small, they were mostly discounted by the ordinary commercial banks, which at that time were glad to find a safe investment for that part of their funds (for example, foreign credits), which they did not wish to lend at long term. By October, however, the supply of bills had so much increased that the banks were forced to re-discount part of their holdings with the Reichsbank and there was a rise in the market rate of discount. The Reichsbank, therefore, intervened and began to discount these bills on a large scale directly. At the same time it used its new powers of open-market dealings, conferred on it by the Reichsbank Act of October 1933, to buy up tax certificates to the amount of 350 million R.M., with the double object of increasing the supply of Central

Bank money and of lowering the discount at which these certificates had been circulating. Apart from this single instance the Reichsbank made very little use of its right of open-market purchase, as its action in directly discounting employment bills had exactly the same result of keeping the money market supplied with abundant funds, and was in effect equivalent to an indirect form of open-market operation.

The illiquidity of the banking system, which was heavily in debt to the Reichsbank, and the business community in general, was such that for a long time the greater part of the new central bank money was used for reducing the indebtedness of business enterprises to the banks and of the commercial banks to the Reichsbank. Throughout this period (and much later), *pari passu* with the issue of employment bills, there went a decline in the total of ordinary commercial bills and of advances, while the total volume of banking deposits also continued to shrink.

The increase in Governmental short-term indebtedness was considerable. The circulation of tax certificates rose from 472 million RM. in March 1933 to 1,215 million RM. in December 1934, while that of Treasury bonds (used by the Government for borrowing directly from the money market) also increased by about 700 million RM. between these two dates. No exact figures exist for the circulation of employment bills, but they can be estimated with reasonable accuracy at 1,200 million RM. at the end of December 1933, and at 2,600 million RM. a year later.¹ Of this latter total about two-thirds was held by the Reichsbank. By this means the reduction in the volume of

¹ Cf. K. Schiller, *Arbeitsbeschaffung und Finanzordnung in Deutschland*, p. 177.

ordinary commercial discounts and acceptances, as well as the loss of 300 million RM. in gold and foreign exchange, were offset. On balance there was not much change in the total volume of credit outstanding. But whereas at the beginning of 1933 it consisted mainly of financial obligations arising out of past transactions, by the end of 1934 the credit structure had completely changed and was now representing current transactions in the sphere of industry and trade.¹ Liquidity had been very largely restored both in banking and industry, with the result that short-term interest rates were lower. Thus call money, which had stood at 7·9 per cent. at the beginning of 1932, and had averaged 5·11 per cent. in 1933, fell to 4·55 per cent. in December 1934. For the same periods the private discount rate fell from 6·88 per cent. to 3·88 per cent. and 3·50 per cent. respectively. Bank loans in the form of fixed advances remained as high as 7 per cent. throughout 1933 and 1934, while overdraft facilities cost 9·5 per cent.; but business in general was not much affected by these rates, as it would get its credit from the discounting of bills. In contrast to the comparatively low rates in the money market, the yield of fixed interest securities remained high. The average yield of 6 per cent. industrial bonds in 1933 was 7·64 per cent., and of 6 per cent. public loans 7·17 per cent. By December 1934 the yields had only fallen to 7·43 and 6·61 per cent. respectively. Under these conditions it is not surprising that the long-term capital market was completely stagnant.

Industrial Organisation. — German industry and

¹ The note circulation of the Reichsbank increased from an average of 3,373 millions RM. in 1933 to 3,888 million RM. in December 1934.

commerce were organised by the National Socialist Government during the years 1933 and 1934 into thirteen Groups with a large number of Sub-Groups. The Groups were combined with the Chambers of Commerce to form at the top a National Economic Chamber (*Reichswirtschaftskammer*), the whole structure being subordinated to the Minister of Economics.¹ The essence of these measures was to extend and develop the system of responsible economic self-government, subject to the general direction of the State, while leaving management and risks of business in the hands of private enterprise. The State in fact divested itself of a great deal of its previous direct participation in industry and thus enlarged the sphere of individual — as distinct from public-ownership. But at the same time State control, regulation and interference in the conduct of economic affairs was enormously extended. In the field of investment and in price policy² the State intervened with drastic effect. A number of cartels were dissolved or their price agreements declared invalid, but in many industries firms were forced to cease competing with one another and to form cartels, and this compulsory cartelisation was combined with prohibitions against new capital investments. In 1933 and 1934 compulsory cartels were formed in 26 important industries, and in each case it was forbidden to set up new undertakings or to extend the capacity of existing undertakings, or to recondition plants which were not in operation. With the important exception of the textile industries, these provisions (which were only

¹ The organisation of the German industrial system is well described in Mr. Rawlins' Report on Economic Conditions in Germany to 1936, Cmd. 641 of 1936.

² Cf. Chapter IV, pp. 154-83.

temporary) applied chiefly to the capital goods industries. The chief motives here were the existence of a large amount of surplus capacity, over 50 per cent. in many cases at the end of 1933; and the fear that over-investment, which had played so important a rôle in the boom of 1927-29 would recur and lead to another slump. In some cases special measures were taken either to protect existing interests or to prevent technical changes from producing unemployment, or to defend small producers. Thus from 1933 to 1935 no new retail shops were allowed to be established except under license. In August 1933 limitations were imposed on the introduction of labour-saving machines in cigar-making, and in June 1934 an embargo was placed on the extension of large-scale plants producing smoking tobacco. Again, in 1933 and 1934 the introduction of automatic machinery was prohibited for chemical and hollow glass-ware. The influence of technical improvements upon employment was widely debated at this time and the action of the Government was not universally approved, but the practical consideration of the difficulties in the way of the speedy reabsorption of displaced labour, when there was widespread unemployment, proved decisive. In general, it would seem that the State authorities at this time were still thinking in terms of a cyclical movement of trade and were anxious to avoid repeating the mistakes of the past. The restrictions on private investment of the type described above, increased the relative importance of public investment, while retarding the expansion of those industries which would otherwise have benefited from new equipment orders, and it certainly constituted an important interference with the normal operation of the "multi-

plier". But on the whole the restrictive effects were swamped by the magnitude of public investment.

Agriculture. — During the course of 1933 and 1934 agriculture was completely reorganised under the Food Estate (*Reichsnährstand*), which comprised not merely all landowners, tenants, cultivators and agricultural workers, but also all wholesale and retail traders in agricultural products and foodstuffs, all manufacturers, such as millers, brewers, sugar makers, etc., all agricultural co-operative societies and the new associations created for marketing. The previous organisations, such as the Chambers of Agriculture, the National Farmers' Association, etc., were either dissolved or incorporated in the Food Estate. At the same time, for each of the main agricultural products, marketing associations (*Marktverbände*) were established with a partly central and partly regional organisation. The marketing association for each product was in turn organised both on vertical and horizontal lines. On the one hand the *Hauptvereinigung* covered every individual and every process, from the farmer to the consumer, *i.e.* the whole productive cycle, agricultural, manufacturing and commercial, with regional groupings known as *Wirtschaftsverbände*, and also based on the vertical principle; while on the other hand there were horizontal federations of those engaged on each stage of the productive process, which were termed *Wirtschaftliche Vereinigungen*. The horizontal federations were in effect compulsory cartels, with powers, *inter alia*, of licensing the creation of new undertakings or the enlargement of existing ones; but they differed from the industrial cartels in being an integral part of the marketing associations and com-

pletely subordinated to the latter in matters of policy.¹

To the marketing associations was given the task of regulating the distribution, prices, profit margins and (in a varying measure) production, of agricultural produce. In contrast to the British marketing boards, the element of State control and guidance is predominant in the German marketing system, although great importance is attached to the preservation of the economic independence of the individual producer or trader. The form adopted is that of self-government under the supervision of the State in the interest of the community as a whole. One clear result of the marketing organisation has been to show that the earlier unregulated system of marketing had involved large waste, and it has been found possible to reduce costs of distribution to a very considerable extent.²

Side by side with the marketing associations there were established Boards (*Reichsstellen*) which were given a monopoly control over the import and export of the principal foodstuffs, cereals and fodder, animals and animal products, dairy produce, oils and fats, eggs, and later, market-garden produce and wine. These — unlike the marketing associations — were trading bodies, and they were entrusted with the purchase and sale, not merely of foreign foodstuffs, but also in a large measure of domestic produce for sale within the country. Controlling as they did the amounts of, and prices at which foreign foodstuffs were sold in Germany, as well as the rate of accumu-

¹ Later developments have tended to favour the vertical rather than the horizontal form of organisation. Thus the important *Wirtschaftliche Vereinigung* of the wheat and rye millers was dissolved in July 1938, and its functions transferred to the *Hauptvereinigung* of the grain and fodder trades. At the end of 1938 the only surviving member of the pure horizontal type was the *Wirtschaftliche Vereinigung* of the confectionery trade.

² See below, p. 161.

lation of stocks in the country or sales from stocks, they exercised a determining influence upon internal food prices. Prices of rye and wheat were fixed for a whole cereal year, while the prices of livestock and dairy products were raised to a more remunerative level by the restriction of imports.

By these means the total returns to German agriculture in 1934-35 were raised by as much as 30 per cent. over the level of 1932-33. On the expenditure side an extensive measure of debt reduction was carried out, and taxes and interest rates were reduced — the latter fell from 13·5 per cent. of the total returns in 1931-32 to 7·0 per cent. in 1934-35.

As a result of the combined effect of the improvement in prices and the fall in costs, there was a great increase in the purchasing power of the agricultural section of the community, the net receipts of the farmers having risen from 300 million RM. in 1932-33 to 2 milliard RM. in 1934-35. It has been estimated by the German Business Research Institute (Institut für Konjunkturforschung) that only one-half of the capital goods produced by German industry is normally marketed within industry itself, and that only 35 per cent. of the output of manufactured consumption goods is marketed among those engaged in industry. More than 60 per cent. of the whole output of finished goods is sold outside industry, chiefly in foreign trade, agriculture, transport and other income groups. As foreign trade was rapidly declining and the export of industrial goods had fallen in volume by one-third between 1932 and 1933, much the most extensive of the remaining markets for industrial products was agriculture. Thus the maintenance of farm incomes on a profitable basis was an

important part of the strategy of economic revival. It is easy to exaggerate the extent of the injury to the rest of the population resulting from the rise in producer prices. The control of marketing meant that the increase in cost to consumers was much less in proportion than the increase in the price received by the farmers. The burden was widely spread and fell on a consuming population whose incomes were expanding owing to the growth of employment, while in any case the new level of prices (both wholesale and retail) was still well below that which had prevailed as recently as 1931.

Finally, mention must be made of one of the most outstanding innovations of the National Socialist régime — the Hereditary Farms Law (*Reichserbhofgesetz*) of September 29, 1933. Subject to the fulfilment of certain conditions, peasants owning farms up to a maximum size of 309 acres were deemed to come within the scope of the law. Their farms were entailed and they were deprived of the power of either alienating or mortgaging their land in future,¹ though they might still raise credit on their personal security.² Steps were also taken in many parts of the country to consolidate peasant holdings and to increase their size till they were sufficiently large to support a family. A good standard of farming is demanded of the *Erbhofbauer*, and not a few of them have in fact been dispossessed of their holdings in favour of the next

¹ It has been well said by an English writer that over against the "pride of possession" must be set "the misery of mortgage"; it was largely to combat this evil and that of the excessive subdivision of the land under a system of peasant proprietorship that the law was passed.

² This has given rise to difficulties which the Food Estate has endeavoured to meet by the development of new types of agricultural credit institutions, but it cannot be said that the problem has yet (1938) been solved.

heir, if owing to incompetence, laziness or drunkenness, they have been adjudged unworthy of their privileged status in the Reich. In 1933 there were 5,100,000 persons (including 4,100,000 owners and members of their families) living on some 640,000 hereditary farms, comprising about 40 per cent. of the cultivated land of Germany.

Foreign Trade. — It is a matter of peculiar difficulty to give an adequate account in a short space of Germany's foreign trade and exchange policy, which underwent crucial changes during the period under review. The balance of trade had been deteriorating steadily since 1931. In that year there was an excess of exports over imports of 2·9 milliard RM. ; in 1932 the excess fell to 1·1 milliard RM., in 1933 to 670 million RM., while in 1934 there was an adverse balance of 280 million RM. The total value of exports in 1934 was only 44 per cent. of its value in 1931 (4·2 milliard RM. as compared with 9·6 milliard RM.). The movement in terms of values and volumes between 1932 and 1934 are shown in Table IX :

TABLE IX

IMPORTS AND EXPORTS

	Million RM.			
	Imports	Exports	Imports at 1928 Prices	Exports at 1928 Prices
1932	4,670	5,740	9,500	8,100
1933	4,200	4,870	9,300	7,600
1934	4,450	4,170	9,800	6,800

It has been estimated by the Reichskreditgesellschaft that the average price of German imports fell by 2·5 per cent. between 1933 and 1934, while the

average prices of her exports fell by 9·1 per cent., so that the terms of trade moved sharply against her.

In 1933 the situation was still relatively favourable, as there was a very good harvest which enabled food imports to be reduced, so that total imports were lower than in 1932, and it was still possible to show a favourable balance of trade. In 1934, however, there was both a heavy fall in exports and an expansion of imports due to the increasing trade activity in Germany and the rise in incomes. The decline in exports was caused largely by the continued shrinkage in international trade values, especially in so far as the gold bloc countries were concerned, but also by the growing competition of the countries with devaluated currencies, and by the wide extension of tariffs, and exchange restrictions. Germany's second largest export, that of machinery, was particularly affected by the sudden decline in exports to Russia ; the Russian machine-making industry was expanding rapidly at this time and political factors also played an important rôle.

Table X shows the German balance of payments from 1931 to 1934.

The deterioration of the balance is evident from this table. Ever since 1931 there had been a measure of exchange control in Germany, but it had been administered chiefly with the aim of limiting the withdrawals of foreign credits from Germany in order to safeguard the external value of the mark. Even so the strain on the trade balance was very considerable, as including interest, net capital outflow and decrease of gold and foreign currencies, there was a one-sided flow from Germany amounting to 5·4 milliard RM.

for the three years 1932 to 1934.¹ In distinction from the control of capital export there was little restraint imposed on the import of goods, and prior to June

TABLE X
BALANCE OF PAYMENTS²

	Million RM.			
	1931	1932	1933	1934
<i>Income Account —</i>				
Foreign Trade	+ 2,778	+ 1,052	+ 666	- 373
Services	+ 450	+ 265	+ 313	+ 464
Interest, dividends, reparations, etc.	- 2,188	- 1,060	- 847	- 625
<i>Capital Account —</i>				
Decrease of gold and foreign exchange holdings	1,653	256	447	424
Capital movement	+ 657	- 749	- 807	+ 190
Of which, long-term	+ 100	+ 14	- 50	- 200
short-term	+ 477	- 763	- 747	+ 510
other	+ 80	..	- 10	- 120 *
Unclassified remainder	- 3,350	+ 236	+ 228	- 80

* Capital taken out of Germany by emigrants.

1933 foreign exchange was readily made available for the payment of interest. In June 1933, however, a law was passed restricting the transfer of income derived by foreign creditors from their property in Germany. German debtors were empowered to discharge their liabilities in foreign currencies by making payment in marks into a special account in Berlin. The transfer of the full interest and sinking fund payments of the Dawes Loan and of the interest on the Young Loan was continued, but the sinking funds on all

¹ It is to such figures as this that the Germans point when they contend that they were doing their utmost to meet their foreign obligations, and that it was necessity and not bad faith which caused them to default.

² *Statistisches Jahrbuch für das Deutsche Reich*, 1935, p. 489, and 1937, p. 536.

other loans were suspended, and only half the interest was transferred in foreign currencies to the end of 1933. In respect of the non-transferred interest quotas the foreign creditors received scrips which in turn they could sell to the Gold Discount Bank for foreign exchange, but the bank was only willing to buy the scrips at a 50 per cent. discount on their nominal value. The other 50 per cent. was used by the Gold Discount Bank to subsidise exports from which it was hoped that sufficient additional foreign exchange would be forthcoming to enable the first 50 per cent. to be transferred. On balance the foreign creditor lost a quarter of his interest rights, though it must be remembered that the nominal rate was a very high one. The whole procedure, coming as it did on top of the earlier Standstill and other arrangements regulating foreign loans to Germany, which had brought into existence a number of categories of blocked marks circulating at various degrees of discount, created a storm of indignation abroad. The German Government was accused of deliberate repudiation and default, but defended itself with the counter-charges that its actions had been dictated by necessity, and by the unwillingness of the creditor countries to accept German goods and by their devaluation measures. Moral and political, as well as economic issues are involved in this matter and it lies outside the scope of this book to discuss them fully: both parties had legitimate grievances, and on neither side was there willingness to recognise either the rights or the difficulties of the other side.

By the summer of 1934 the exchange position had much deteriorated; imports, not only of raw materials, but also of manufactured articles were

increasing, while exports were declining. The reserves of gold and foreign exchange were practically exhausted and it was no longer possible to continue transfers under the previous arrangement. In June 1934 transfer of interest by foreign exchange payments was completely stopped in principle, and foreign creditors were offered ten-year Funding Bonds, bearing interest at 3 per cent. Immediately every country which was in a position to do so started negotiations with Germany to secure more favourable terms. In a large number of cases Clearing Agreements were made, which had the effect of ear-marking virtually the whole of the proceeds of German exports to the country in question for the payment, either of exports from that country to Germany, or of arrears of interest on outstanding debts. With a few countries, notably Great Britain, it was possible to conclude Payment Agreements (*Zahlungsabkommen*), which were more favourable than the Clearing Agreements, both because they were more elastic and involved less bureaucratic control of the individual trader in each country, and because — as a rule — there was a larger proportion of free exchange. In general, of course, these agreements were hampering to the development of Germany's foreign trade, but they were the inevitable outcome of the natural desire of each country to safeguard its own interests as far as possible in the face of the German default. They also practically abolished multilateral trade so far as Germany was concerned.

In the meantime the whole system of foreign exchange control was breaking down. The system in force was one under which German importers were given a foreign exchange allotment in proportion to

the amount they had imported before 1931. Whereas in February 1934 the allotment was 50 per cent., by May it had fallen to 5 per cent., and finally to a day-to-day allotment, based on the Reichsbank's intake of foreign exchange. Orders could not be cancelled as quickly as facilities for payments were restricted, and there was an increase in the volume of outstanding commercial debts.

Once again the German Government found itself confronted with the alternative of devaluation. There was again at this time a considerable body of influential opinion in Germany which was in favour of adopting this course, and the Government had even allowed the pros and cons of devaluation to be extensively discussed in the newspapers. In a totalitarian country the public ventilation of a controversial issue has a quite different significance from that in a country with a free Press. There were widespread rumours, and this fact, combined with rising internal prices of a number of commodities, led to a wave of hoarding purchases which depleted retailers' stocks and led at the moment to large additional orders for consumption goods. The Government was impressed by the extreme sensitiveness of the general public to the mere hint of a possible devaluation; but there were also other reasons, some old and some new, which weighed with it. The nominal value of Germany's external debt had been still further lowered by the American devaluation; many of Germany's neighbours still adhered to the gold standard, while there was no definite stability in the sterling bloc, and had Germany devaluated in 1934, other countries, *e.g.* Sweden, might have been induced to devalue their currencies still further. Further, it is very doubtful

whether Germany would in fact have been able to enjoy one of the greatest apparent advantages of devaluation — the abolition of exchange restrictions — since Jewish capital was most eager to emigrate and could hardly have been restrained in the absence of a very considerable control over the exchanges. The stability of the German price structure would have had to be sacrificed and the economic system would have been dominated by the international trade-cycle. Finally, the experience of both Great Britain and the United States seemed to have shown that although, by lowering the value of the currency, these countries could take a small amount of export trade from Germany, the world elasticity of demand for manufactured products such as Germany exported was not so large that a 30 or 40 per cent. devaluation would enable her to expand her exports very greatly. A free German import market would no doubt have helped to raise the prices of raw materials and so the purchasing power of the producing countries, but the quantitative effect could scarcely have been great, while there was always the likelihood of the imposition of new tariffs and quota restrictions against her goods.

On a balance of considerations the Government decided against devaluation, and in September 1934 Dr. Schacht, who had been placed in charge of the Ministry of Economics in July 20, 1934, announced the so-called New Plan for foreign trade. Under this the former system of foreign exchange allotment by quotas was replaced by a system under which a foreign exchange certificate had to be obtained for every individual transaction before a definite order could be placed and the goods imported. The administration of the Plan was carried out by twenty-seven

Control Boards, based on the industries or raw materials concerned. These Boards were responsible for giving exchange certificates and for deciding for which countries and for which goods the available supplies of foreign exchange should be used. They also, in addition to their control of imports, exercised an important influence over exports. In practice the New Plan involved a great extension of bilateral trading, and a good many barter compensation deals were carried out, in which ships or armaments were exchanged against the surplus of, say, a coffee or cotton crop.

In addition there grew up an extensive system of private compensation agreements which assumed many different forms. In one type, which especially at first was of common occurrence, the system worked as follows. A German importer was anxious to buy goods from, say, the United States. He would make enquiries until he found a German exporter who wanted to sell other goods to the United States but was unable to obtain his price, which at the nominal rate of exchange was x per cent. over the world price. The German importer would pay the German exporter the x per cent., thus enabling the latter to accept the world price for his goods. In consideration of this x per cent. the German exporter would surrender to the importer his right to foreign exchange. With the foreign exchange thus at his disposal, the German importer would buy the goods which he wished to import from the United States. But in order to recoup himself for the premium of x per cent. which he had to pay to the exporter, he would have to add this x per cent. to the selling price inside Germany of the goods which he had bought from the United States.

It is clear that the size of the premium paid (the x per cent.) would vary with the relation between internal and external prices, and with the nature of the goods and their relative demands.

Another variant of compensation trade took the following form. A German importer, A, eager to procure essential goods from an English exporter, B, would offer the latter a premium above the world price, which in 1935 often was as high as 25 per cent. above the world price, though later this was reduced as a result of Government supervision. The English exporter, in his turn, concerned with how to secure payment for the goods which he had exported to Germany, would be put in touch with another Englishman, C, who was prepared, or could be induced, to purchase goods exported by another German, D. The whole transaction would be prepared and simultaneously concluded by C settling with B in sterling and A with D in reichsmark. Normally the bulk, if not the whole premium or bonus obtained by the English importer B, would be passed on to the English exporter C in order to make the business attractive to the latter.

A more generalised form of compensation trading, involving much less individual negotiation and pairing-off of supply and demand, was afforded by the system of Aski¹ marks, which came to be widely developed. Under this system a foreign exporter sold his goods to Germany and received in exchange a credit in Aski marks. These marks he could sell, at a considerable discount, to the importer of goods from Germany, who was thus enabled to pay the German price. The

¹ The letters A S K I stand for *Ausländersonderkonten für Inlandszahlungen*.

fact, however, that the Aski marks could only be sold at a discount would be taken into account by the exporter to Germany, who would raise his price in marks correspondingly. Each country had its own Aski marks, and provided the German authorities saw to it that the total values of exports and imports were balanced, the financial side of the transactions could often be settled in the market for Aski marks without the necessity for buyers and sellers being in direct contact with one another.

It may be noted that the advantages of compensation trading under conditions of foreign exchange control are that the parties can negotiate between themselves the conditions of the transaction and settle the effective rate of exchange, so that risks to both parties are reduced. There is the further gain, in some of the forms adopted, that the premium or bonus can be divorced from the price of the goods, thus avoiding the higher customs duties which would otherwise have to be paid in each direction — assuming *ad valorem* duties.

From the German point of view the main disadvantages of the New Plan were its extreme cumbrousness, complexity and costliness, which undoubtedly have had an important effect in restricting the total volume of German trade. Internally, moreover, the restriction of imports in the face of a growing demand necessarily involved the rationing of raw materials inside the country. The working of barter and compensation agreements frequently meant that Germany diminished her purchases, say, of United States cotton or Australian wool, and increased her purchases of South American cotton and South African wool. In many cases there were technical differences in the

raw materials which involved considerable initial dislocations in production. Both shortages of supply and change of quality of raw materials were most apparent in the textile industries during the second half of 1934. Thus in July of that year it was necessary to pass the Textile Fibres Decree, which, besides regulating in detail the prices of textile materials and fabrics, restricted working hours (except for export) to thirty-six per week and prohibited any extensions of textile plants. Finally, the decision not to devalue but to maintain the nominal external value of the mark, left German wholesale prices much above the level of the world prices, and made it necessary for export prices to be subsidised. With the decline in the transfers of interest across the exchanges the rôle of the depreciated blocked marks in financing exports diminished and other methods had to be found. The device was adopted of a levy on industry (*Exportumlage*), operated through the Group organisations. In theory the levy was (and remains) voluntary, but in practice it could hardly be evaded. Great secrecy is maintained as to the amount of the levy, but it is believed outside Germany to have amounted since 1935 to about 1 milliard RM. per annum, or from a quarter to a fifth of the nominal value of German exports, and it is said to be assessed as a percentage of the wages bills of undertakings, though not at a flat rate, but varying from firm to firm. The Germans claim that the subsidisation of exports is not tantamount to export dumping. They urge that it has been forced on them by the prior devaluation of foreign currencies (British export prices measured in gold fell by 13 per cent. between 1933 and 1936, while German wholesale prices in general rose by 13·7 per cent.), and

that in their own interests, for reasons of cost, they use it with moderation. It is probable that in spite of the subsidies Germany is a less serious rival of British exports in world markets as a whole now than it was before 1931.¹

As offsets against these serious disadvantages the New Plan made possible the stabilisation of the German internal price level and the prevention of large-scale capital exports. It ensured that Germany would not import more than she could pay for with her exports, and that she could direct the flow of her exports to those countries which were prepared to accept her goods and whose goods she wished to buy in return. Moreover, the system of individual control of foreign trade meant that it was feasible to draw up a comprehensive priority list of imports according to their degree of importance for the economy as a whole.

Without this control it is scarcely conceivable that Germany could have maintained so high a rate of internal expansion on the basis of so small a volume of imports ; while, if imports had not been restricted, recovery would have been checked by the resulting adverse balance of payments.²

JANUARY 1935 TO SEPTEMBER 1936

By the beginning of 1935 a large part of the employment creation programme initiated under the First

¹ If the volume of home investment were to diminish appreciably, so that Germany was able to devote additional resources to expanding her export industries, the situation would assume a very different complexion, and she might rapidly become a most formidable competitor in foreign markets.

² It is of great importance to bear in mind in this connection that Germany was virtually devoid of foreign capital assets and had large liabilities towards the rest of the world. She had not, therefore, the means of financing an adverse balance, even for a short period.

Four-Year Plan had been carried out, and there were indications that the rate of recovery was slowing down. Public investment had been the main factor in the economic revival hitherto, and although tax exemptions in respect of replacements (and, since October 1934, of a part of new capital outlay¹) had stimulated private investment in this direction, the high level of the long-term rate of interest was acting as a deterring influence.² Expenditure on renewals was still below normal and the accumulated deficit of the years 1932 and 1933 had not yet been made good. In the last quarter of 1934 State policy in regard to private investment had been undergoing a change. Apart from a prohibition of the erection of new plant in the staple fibre industry at the beginning of December 1934, and from restrictions imposed under the Compulsory Cartel Law, there had been no new prohibitions of extensions of plant since August 1934. Moreover, the shortage of imported raw materials caused by the operation of Dr. Schacht's New Plan was directing attention to the need for expanding the supply of Germany's domestic raw materials, and official encouragement was given to the formation of new enterprises for the extraction of benzine from lignite and for the production of other raw materials.

The period under review was dominated by three developments of major importance: rearmament, the reduction of the long-term rate of interest, and the issue of long-term loans.

Rearmament. — In March 1935 Herr Hitler announced the withdrawal of Germany from the

¹ See above, p. 39 n.

² A good deal of private outlay on capital goods was in fact financed during this period by employment bills.

Disarmament Conference and the reintroduction of conscription. Rearmament, which had been proceeding for some time past under the restrictions imposed by the need for preserving at least an official cloak of secrecy, was now pushed on openly with feverish haste. Barracks and aerodromes were constructed all over Germany, and munition factories were built and armaments manufactured on a vast scale. Every other form of economic activity for the next two years was overshadowed by the enormous expansion of the armament industries. From March 1935 to the middle of 1937 the declining rôle of public works as a stimulus to employment and investment was replaced by the new and insatiable demands of the military supply services. The finance of the new output was provided as before by bills, though they were no longer termed employment creation bills, but "special" bills (*Sonderwechsel*). These bills had a nominal currency of six months, being discountable at the end of three months, and were renewable without limit. They were discounted by the Reichsbank (the State bearing the cost) at its official rate of 4 per cent.; but the practice which had prevailed earlier in the case of the employment bills, of their discount by the commercial banks at the ordinary (lower) private discount rate, came to be discontinued. There grew up a separate market for "special" bills, in which the rate varied from $3\frac{1}{2}$ to 4 per cent., and at times even rose above the Reichsbank rate.¹

The Reduction of the Long-term Rate of Interest. — The existence throughout 1933 and 1934 of a long-term market rate of interest of between 6 and 7 per cent.

¹ Cf. *Die Bank*, August 3, 1938, p. 1018, and W. Prion, *Das deutsche Finanzwunder*, p. 62.

presented one of the most important general obstacles in the way of recovery. Besides hindering private investment, it made it impossible even for the Government to issue any new long-term loan; while all debtors, but especially public authorities, continued to be burdened by the high interest payments on their past loans.

The enforced conversions of 1931¹ had done something to lower interest charges on previous indebtedness, though they had not succeeded in bringing down the yield of fixed interest securities. The extent of the reduction in interest payments by the middle of 1932 can be seen from the following figures, which show the aggregate indebtedness of the German economic system.

TABLE XI
AGGREGATE INDEBTEDNESS²

	Long-term Debts			Short-term Debts		
	Principal (Mrd. RM.)	Interest (Mrd. RM.)	%	Principal (Mrd. RM.)	Interest (Mrd. RM.)	%
End of 1930	58.8 *	4.5	7.6	34.1	2.4	7.1
July 1932	61.5 *	3.3	5.4	28.4	1.9	6.8

* In these totals are included some 15 milliard RM. representing pre-war indebtedness which was re-valued after the inflation of 1923.

Thus interest payments were reduced by 1.7 milliard marks. The total new indebtedness of the whole economy in 1932 was 89.9 milliard RM., a figure which may be contrasted with an estimated total pre-war indebtedness of 114.4 milliard marks in 1913. In 1930 short-term indebtedness was 36 per cent. of the total as compared with only 15 per cent. in 1913.

The new Government set to work cautiously,

¹ See pp. 24-5 and 29 above.

² Supplement to Weekly Report of Institute for Business Research, March 28, 1934.

bearing in mind the experience of 1931. Already in 1933 a Local Loan Funding Law was passed for funding the short-term debt of local authorities, which were nearly in financial straits. These loans were converted into 4 per cent. bonds guaranteed by the Reich. The creditor was not compelled to accept conversion, but if he refused he was unable to recover either principal or interest for five years, the interest being added to the capital sum at the old rate. This scheme applied to an indebtedness of 2,750 million RM. and resulted in an average fall in interest of 2 per cent. It is significant, however, that in the latter part of 1933 the Funding Loan was quoted at 80. Steps were also taken in 1933 to reduce agricultural indebtedness by the writing-down of mortgages, with some assistance from public funds, and by permanently reducing mortgage interest rates from their nominal 6 per cent. level to 4 per cent.

In October 1933 the announcement of the new powers given to the Reichsbank to engage in open-market purchases of bonds, as a cover for the note issue, had an immediate effect on the bond market, as it was widely expected that the Reichsbank would be following British and American precedents and buying securities on a large scale. It did in fact purchase tax certificates to the value of 350 million RM. and a small amount (about 100 million RM.) of other securities, but for reasons which have been explained elsewhere,¹ it did not adopt an open-market policy of the traditional type on a large scale.

In 1934 a 4 per cent. loan of the nominal value of 329 million RM. was issued at 95, redeemable by annual instalments in ten years. This was used to

¹ See pp. 52-3.

convert the small 6–7 per cent. tax-free Hilferding Loan of 1929 and a portion of the old re-valorised paper-marks debt of the Reich. Very favourable conversion terms were offered and the saving to the Reich in interest was not appreciable.

During the latter part of 1934 the increasing fluidity of the money market and the growth of savings associated with the rise in incomes, directed more attention to the capital market. Owing to the still unsatisfied desire for liquidity, the greater part of any available free funds was invested in employment bills. There were no issues being placed on the market, and funds for longer term investment tended to go into the share market to acquire the shares of industrial companies which were benefiting chiefly by the Government's public works policy. Rumours of impending conversions were circulating and public bonds were consequently unattractive. This trend was unwelcome to the Government, which passed a Dividends Limitation Law (*Anleihestockgesetz*) providing that no company might pay cash dividends in excess of 6 per cent. (in certain cases 8 per cent.). Any dividends above 6 per cent. (or 8 per cent.) were to be paid over to the Gold Discount Bank for investment on behalf of the stock holders in Government bonds, which in turn were to be distributed in 1938.¹ This limitation on the payment of dividends out of profits was designed both to render the stock market less attractive to speculative investors, and to stimulate firms to finance their capital requirements out of their own profits. Actually in 1934–35 it was only a small

¹ Early in the spring of 1938 these accumulated dividends (amounting to 100 million RM.) were in fact distributed, but in the form of non-interest-bearing tax certificates, which could be used for paying taxes in 1941 and following years.

minority of firms which could show profits as high as 6 per cent. on their capital. The direct support to Government loans from the purchases carried out by the Gold Discount Bank was very slight, especially at first, but the indirect effects have been of great and growing importance.

By degrees the fall in short-term interest rates during 1933 and 1934 brought with it a decline in the yield of bonds, while the risk premium decreased as the public gained greater confidence in the ultimate financial solvency of borrowers — a factor which was of great importance in the case of the municipalities. The prices of all 6 per cent. fixed interest bonds quoted on the Berlin Stock Exchange rose from 80 in the first quarter of 1933 to 96 in January 1935. They thus stood nearly at par, but not at such a level as to make possible a free conversion with the alternative of cash, such as had been carried out by Great Britain in 1932. The Government, however, was determined to convert and made use of a remarkable device. In 1935 mortgage bonds and local bonds amounting to 8 milliard RM. were offered for conversion at par, from 6 per cent. or over, into $4\frac{1}{2}$ per cent. bonds, with a single tax-free bonus of 2 per cent. to converting holders. The holder was deemed to have assented unless he notified his non-consent within ten days. If the holder did not agree to the conversion he was allowed to continue to draw the former rates of interest, but his bonds ceased to be quoted on the Stock Exchange or to be eligible as collateral at the Reichsbank; they thus effectively lost their negotiability. All the forces of propaganda were mobilised; the new loan was hailed as a milestone on the road to recovery of the young National Socialist State; and the net

result was that more than 99 per cent. of the bonds were converted to the new rate of interest. A month later the same procedure was adopted and a further 2,000 million RM. of bonds and inscribed debt of the Reich and the States (*Länder*) was converted to a $4\frac{1}{2}$ per cent. basis. The whole manœuvre was a complete financial success, for in November 1935, when the 2 per cent. bonus had ceased to influence quotations, the price of the $4\frac{1}{2}$ per cent. bonds stood at 94.9 as compared with 96 in January 1935 for the 6 per cent. bonds. It must, of course, be remembered that the foreign exchanges were rigidly controlled, so that there was no possibility of transferring funds abroad, while public bonds constituted the principal and almost the only direction in which domestic savings, seeking a long-term investment, could be employed.

Having reduced the rate for public and a large part of private bonds to a $4\frac{1}{2}$ per cent. basis, the Government in February 1935 negotiated an agreement with the banks for reducing the interest rates credited or charged between the banks and their clients, and this reduction was followed by the savings banks and insurance companies. Finally in July 1936 the interest on private (non-agricultural) mortgages was regulated. It was provided that, so far as possible, agreements should be negotiated voluntarily between the mortgagor and mortgagee, but in the event of failure to agree the courts were empowered to establish a suitable rate of interest, the rate allowed in such cases being as a rule 5 per cent. on first mortgages and $5\frac{1}{2}$ to 6 per cent. on second mortgages. Apart from foreign debt, the only part of the debt structure which remained unregulated was the debentures and

similar liabilities of private industrial companies. But many of these were in fact able to take advantage of the general fall in interest rates and to convert their loans on maturity to a 5 per cent. basis.

The Issue of Long-term Loans and the Growth of Savings. — In February 1935 the first step was taken towards the subsequent funding of a part of the new nominally short-term indebtedness which had arisen from the finance of employment creation and re-armament. In view of the conversion operations then in process it would not have been advisable to place a loan on the market, but in fact this was not necessary. The growth of incomes which had followed the expansion of employment and output had increased the savings of the general public, and a considerable part of these had flowed in the first instance into the savings banks¹ and insurance companies. Accordingly a 4½ per cent. issue of Railway (*Reichsbahn*) bonds, redeemable in twenty-seven years and amounting to 500 million RM., was placed with the savings banks in February 1935, and this was followed by a Government loan of 300 million RM. issued under the same conditions and placed with the insurance companies. A further issue was made to the savings banks in September 1935, and in all an amount of 1,206 million RM. was subscribed in that year by these two types of institutions. It was also in September 1935 that the first issue for public subscription was made in the form of 500 million RM. of 4½ per cent. Treasury bonds at 98½, redeemable in ten years. The way for this

¹ Total deposits with the savings banks increased by 704 million RM. in 1934 and by a further 971 million RM. in 1935. It may be noted that there is no limit placed on the amount of individual deposits in German savings banks, and in general they play a much more important rôle in the German capital market than is the case with the savings banks in Great Britain.

had been paved earlier in the year by an interesting financial operation. During the first half of 1935 the Reichsbank had been largely increasing its purchases of bills, especially of the "special" bills issued to finance rearmament.¹ The result was to increase the amount of central bank money in the market, and, with a decreasing number of employment bills coming forward for discount, to cause an excessive liquidity in the short-loan market. The market rate of discount fell in May 1935 to $2\frac{7}{8}$ per cent. and lost touch with the Reichsbank rate, which continued to be 4 per cent. Complaints also began to be heard from the banks that their earning power was being affected.

In order to reduce the supply of central bank money and to provide an outlet for short-loan funds, the Gold Discount Bank, as a subsidiary of the Reichsbank, issued three-months bills (analogous in some ways to English Treasury bills) which were termed *Solawechsel*. These bills were re-discountable with the Reichsbank and were discounted by the banks at the market rate of discount. Under the conditions prevailing at that time they were eagerly bought by the banks, but the latter, in order to pay for them, had to draw upon their balances at the Reichsbank. The Gold Discount Bank used the proceeds of the sale of *Solawechsel* to buy employment- and "special" bills from the Reichsbank. In this way the market rate was raised to an appropriate level, and the risks of inflation were counteracted, while the Reichsbank was unloaded of part of its holding of bills.

It was the success of this operation, coupled with

¹ The reason for this appears to have been the desire to preserve as much secrecy as possible as to both the nature and the amount of State expenditure on rearmament.

evident signs that the capital market was seeking an outlet for funds at a fixed rate of interest for a longer term than was afforded by the bills or Treasury bonds (*Reichsschatzanweisungen*), which emboldened the Government to place the trial issue of 500 million RM. of ten-year bonds with the public in September. The loan was fully subscribed, there was no unfavourable reaction on the price of the conversion loans, and the quotation of the new loans remained at the issue price of $98\frac{3}{4}$. The total of new public issues in 1935 was 1,706 million RM.

The appropriate technique having been developed, further loans were issued in 1936, and in that year public loans to the amount of 1,323 million RM. were placed directly with savings banks or insurance companies, while loans for 1,500 million RM. were offered on the open market in the form of bonds with a currency of twelve years.

The proceeds of these loans, whether placed with savings banks and insurance companies or with the public, were mainly used by the Government to finance new investment, and so to reduce the rate of increase in the circulation of "special" bills, and also to consolidate the short-term indebtedness¹ which had arisen from the bills issued to finance public works. Employment creation bills to the total amount of 1,888 million RM. had been issued in connection with the Papen, "Urgency" and First

¹ It is perhaps a misnomer to speak of the consolidation of short-term indebtedness in view of the fact that these three-monthly employment bills and the six-monthly "special" bills were renewable without limit. It is true that the Government was under pledge to redeem both the tax certificates and the bills issued under the von Papen and the "Urgency" and First Reinhardt Programmes during the period 1934 to 1938, and has done so, but there is no evidence to show that any of the "special" bills have been consolidated.

Reinhardt Programmes. By the end of 1937 the whole of these bills, with the exception of 21 million RM., had been bought up by the Reich, and at that date "almost four-fifths of the whole amount had been redeemed out of budgetary funds of the Reich".¹

Before each loan the circulation of the *Solawechsel* of the Gold Discount Bank was allowed to rise to a high figure. When the loan came to be subscribed and the banks had to transfer funds to the Reichsbank, they allowed their holdings of *Solawechsel* to run off and the circulation declined largely. After the loan, the Reichsbank's holdings of newly created "special" bills increased, and with it the supply of central bank money, so more *Solawechsel* were issued until in turn the moment was ripe for a new loan. It was not the case, however, that there was any exact or automatic relation between the supply of *Solawechsel* and the period of issue of new loans. The determining factor here was the rate of growth of the national income and of savings available for long-term investment.

In order to concentrate the whole of the available savings seeking a long-term investment upon the public bond market, the issue of new industrial bonds and shares was restricted almost to nothing. Even so the share of the savings of the general public which were directly invested in the State loans during this period was not large — it is estimated by the Reich Statistical Office at 103 million RM. for 1935 and 665 million RM. for 1936. The larger part of the loans offered for public subscription was in fact subscribed by the banks, though this did not, as might at first sight appear, have an inflationary effect; it meant

¹ *Die Entwicklung der deutschen Bauwirtschaft im Jahre 1937*, pp. 30-31, issued by the Deutsche Bau- und Bodenbank.

that they were holding their assets in a different form. Under former banking conditions German banks, unlike the British banks, were not accustomed to purchase large quantities of Government bonds. But when the whole banking system was regulated by the law concerning Credit of December 5, 1934, the banks were encouraged to hold this type of security by the provision that Government bonds might be included among the reserves which the banks were legally required to keep against their liabilities. The savings banks also were limited as to the amount that they might lend on mortgage and real estate, and a large part of their investment holdings was diverted to the bond market. Thus, so far as the capital market was concerned, savings were accumulated in private hands, and then, for the most part, not invested directly in new issues, but placed with the banks, savings banks and insurance companies, which in turn invested them in public loans. It may be noted that a further outlet for private savings consisted in privately financed house-building, which showed a large increase in 1936 over earlier years.

In addition to those already mentioned there were two other important sources of capital formation in Germany — the budget revenues and the reinvested profits of industry.

The growth of the national income was accompanied by an increase in the yield of taxation. The total tax revenues of the Reich rose from 6.6 milliard RM. in 1932-33 to 9.7 milliard RM. in 1935-36 and to 11.5 milliard RM. in 1936-37. The rise in revenue was not due to the imposition of additional taxation, but to the retention—in spite of growing prosperity—of the high rates which were imposed in the crisis

years 1931-32. A number of taxes were in fact lowered in 1933 as part of the scheme for the stimulation of employment, and the only major increase (the raising by 50 per cent. of the corporation tax rates in September 1936) came too late to have much effect on the totals for 1936-37. No figures have been published since 1934 showing the expenditure side of the budget. It is certain that current expenditure must have increased considerably since 1934, if only as a result of conscription and rearmament, but it is known that very substantial sums were contributed from the budget for capital outlay. Moreover, although unemployment contributions continued to be levied, the payment of benefit fell off greatly owing to the decline in unemployment, with the result that there was a large additional surplus from this source. Expenditure on the relief of unemployment was 3,150 million RM. in 1932-33, but only 1,300 million RM. in 1936-37.

The effects of the Dividends Limitation Law of 1934 and of the restrictions on new capital issues were to cause firms to reinvest much of their undistributed profits in their own business. In 1935, but still more in 1936, very large profits were being made in the capital goods industries, and at the same time as the output of firms in certain sections reached capacity there arose the need for further capital outlay. There was also still a considerable carry-over of replacements and renewals which had not been effected in previous years. Large sums, therefore, were needed for private investment in plant and machinery, and these were increasingly obtained from the profits of industry itself.

Employment. — Unemployment decreased from an

average of 2,150,000 in 1935 to 1,590,000 in 1936, and in October 1936 it was as low as 1,076,000. Employment was 16,000,000 for 1935, 17,140,000 for 1936 and 17,810,000 in October 1936: very little of this was substitute employment. The figures do not include the 200,000 employed in labour service, while the number employed on emergency relief works fell off greatly after 1934.

It is sometimes suggested that conscription has been an important factor in reducing the number of the unemployed, but this is not borne out by facts. Throughout 1935 and 1936 (allowing for seasonal variations), as unemployment diminished, so employment increased. It is true that the Reichskreditgesellschaft at the beginning of 1937 admitted that "the introduction of general conscription for the Labour Service and the Army now regularly withdraws two and a half years of young labour from the economic system".¹ But in spite of this, employment continued to increase to a large extent, and indeed by more than the amount by which unemployment fell off, as can be seen by the above figures. It may be noted also that the large number of those in S.S. and S.A. (*Schutz Staffel* and *Sturmabteilung*) formations do not affect the figures, since, except for a relatively small number of high permanent officials, the members of these bodies are engaged in their ordinary occupations and carry out their special duties in their spare time.

¹ Report for 1936-37, p. 32. If this statement is taken to refer to the number of boys leaving school for employment at the age of 15 (about 500,000 during the period under review), this would give a total of 1,250,000 withdrawn from employment. If, however, it refers to the number reaching the age of 19, and therefore liable for service (334,000 for the average of 1935-37), this would make a total of 835,000.

Table XII shows the relative growth of employment in the building and heavy and metal trades as compared with the consumption goods industries for July 1933 and July 1936.

TABLE XII
GROWTH OF EMPLOYMENT IN VARIOUS TRADES

	Number of Workers in Employment		Increase 1933-36	
	1933 (1,000's)	1936 (1,000's)	(1,000's)	%
Building	666	2,057	1,391	209
Engineering . . .	311	641	330	106
Automobile . . .	148	321	173	117
Iron and metals . .	244	447	203	83
Electrical	169	290	121	72
Building materials .	214	331	117	55
Chemicals	178	238	60	34
Textiles	694	798	104	15
Clothing	401	454	53	13
Foodstuffs	506	535	29	6

“ During the three years, from the middle of 1933 to the middle of 1936, about 80 per cent. of the total increase of employment took place within the capital goods industries, 48 per cent. falling within the building trades with their subsidiaries. Whereas the increase of employment among workers in industry and handicraft amounted to 54 per cent., it was 17 per cent. among workers in trade and transport and only 14 per cent. among salary earners.”¹

The significance of the changes in employment can be seen more clearly with the aid of the Table² on page 88, which is extracted from the Industrial Census taken in 1933.

¹ This quotation and the table preceding it are taken from the Report of the Reichskreditgesellschaft for 1936-37, p. 31.

² Report of Reichskreditgesellschaft for 1935-36, p. 17.

TABLE XIII

NUMBER OF FIRMS AND EMPLOYMENT IN INDUSTRIAL GROUPS

Industrial Groups	Number of Firms (1,000's)		Number of Employees (in Millions) *	
Production goods industries	..	419	..	3.74
Consumption goods industries —	..		..
(a) Provisions . . .	303	1,484	1.42	5.26
(b) Textiles and clothing .	604		1.90	
(c) Furniture, etc. . .	577		1.94	
I. Industries as a whole .	..	1,903	..	9.00
II. Wholesale and retail trade — . . .			..
(a) Production goods	42	1,243	0.22	3.38
(b) Consumption goods	1,201		3.16	
III. Transport, banking, insurance and agencies	..	396	..	2.19
Grand Total .		3,542		14.57

* These are census figures and are compiled on a different basis from the figures shown in the preceding table, which were taken from the returns of the Sickness Insurance Office.

Thus, in the depression year 1933, those employed in the production and handling of consumption goods amounted to about eight and a half millions, as against four millions in the production goods industries. It was largely this situation which led the Government to concentrate its attention in the early years on the revival of investment and employment in the capital goods industries.

By October 1936 there had developed a considerable shortage of labour, especially skilled labour in the production goods industries, and hours of work were being increased. There had been a far smaller expansion of employment in the consumption goods industries, though even here there was very little actual unemployment, but an appreciably shorter working day.

As the total figures show, the residual unemploy-

ment had been reduced to quite manageable proportions. Of the million unemployed in October 1936, more than half a million could be reckoned either as unemployables or as representing the normal minimum of labour turn-over with a certain allowance for seasonal influences. With considerable, if not complete justification, the Party could claim that the pledges of the Four-Year Plan had been carried out, and unemployment had been conquered.

Investment and the Growth of the National Income. — The national income had risen from 52·7 milliard RM. in 1934 to 58·6 milliard RM. in 1935 and 65·6 milliard RM. in 1936. Gross (and net) investments for the same years had risen from 8·3 (2·4) milliard RM. to 11·6 (5·6) milliard RM. and to 13·8 (7·6) milliards. Thus an increase of 3·3 milliard RM. in gross investment from 1934 to 1935 had been associated with a rise in national income of 5·9 milliard RM., while the corresponding figures in 1935–36 were 2·2 milliard RM. for gross investment and 6·4 milliard RM. for the growth of the national income.

The “investment multiplier”¹ continued to be low in comparison with the previous boom of 1926–29. But the main reasons were by no means the same. The desire for liquidity had been largely satisfied by the beginning of 1935 and the frozen indebtedness which had been the legacy of the slump had been paid off; the initial time-lag also had disappeared; most of the workers had been reabsorbed into regular employment, and surplus capacity had given place to full output in many of the capital goods industries. There were strong reasons, therefore, to expect that the value of the “multiplier” would increase. That

¹ See above, pp. 48-50.

it did not do so was largely due to the stabilisation of wages and prices, and to the encouragement of voluntary savings (which increased very fast); and to the imposition of a large amount of forced saving upon the community through high taxation¹ (including social insurance contributions), industrial levies for the finance of exports, levies of the type of the *Winterhilfe*, etc. The Dividends Limitation Law of 1934 operated in the same direction. At the same time the budget revenues were used to finance new investment or the funding of earlier indebtedness, and there was a certain amount of redemption of past debt. Consumption was restricted by the rationing of raw materials, and the available evidence points to a continued decrease in the stocks of finished goods during this period. That the throttling-down of consumers' incomes, within the limits of the resources available for producing consumers' goods, was successful, is shown by the absence of queues in spite of the fact that there was no general form of consumers' rationing. Stated broadly, then, armaments and other forms of capital outlay were being carried out at the expense of real income. Some measure of the increasing relative importance of investment can be seen from Table XIV.

Production.—The index of production goods (1928 = 100) rose from 77·2 for the average of 1934 to 99·4 for 1935, and reached 119·3 in October 1936. As before, the building and heavy and metal industries led the way, fostered as they were by the State expenditure on rearmament, by the expansion of housing and by the construction of the motor roads.

¹ The ratio of total taxation of the Reich, provinces and local authorities to the national income rose from 17·5 per cent. in 1929 to 23·7 per cent. in 1936.

On the latter 1,500 million RM. had been spent since the first sod was cut in October 1933, and there were already 1,000 kilometres of road in use and a further 1,500 kilometres in course of construction; from

TABLE XIV

RELATION OF GROSS INVESTMENT TO INDUSTRIAL PRODUCTION ¹

Year	Milliard RM.		Share of Investment in Industrial Production
	Value of Total Gross Industrial Production	Volume of Gross Investment	
			%
1929	84.0	13.2	15.7
1933	37.8	5.1	13.5
1934	49.6	8.3	16.7
1935	58.1	11.0	18.9
1936	65.1	13.8	21.2

80,000 to 100,000 men were regularly engaged in making the roads. The motor car industry itself was booming, the output having risen from 153,000 cars in 1934 to 261,000 for the first ten months of 1936.

In the case of consumption goods, output had continued on a low level throughout 1935 — well below the average for 1934. Demand was still suffering from the hoarding purchases of 1934; with stable wages and a rise in the price of foodstuffs there was less income available for other types of expenditure; and finally, the consumption industries were hardest hit by the restriction of the imports of foreign raw materials. The Textile Fibres Decree of July 1934 had reduced the working week to thirty-six hours in all textile factories using foreign materials and producing for the domestic market, drastic embargoes had been placed on new investments, while the allocation of raw materials was strictly rationed. The

¹ Report of Reichskreditgesellschaft for first half of 1937, p. 15.

admixture of staple fibre with woollen and cotton goods was encouraged, with results which for the time being were serious both for the continuity of output and for the quality of the goods. In December 1935 the Textile Fibres Decree was replaced by the Textile Materials Law, which substituted a comprehensive regulation of the volume of manufacture for the previous device of shortening hours of work. Each firm was given a manufacturing quota and the total was adjusted to the available supply of raw materials. But even this limited output they had difficulty in selling, as the retailers had placed such large orders at the time of the hoarding purchases of 1934 that it was not until 1936 that they began to buy again with greater freedom.

During 1936 the continued expansion of the national income at length led to an appreciable growth in the output of consumption goods, the index of which rose to 102·4 in October 1936. Textiles, as has been mentioned, revived, and there was a steady growth of the output of the other main consumption goods industries — household goods and furniture, foodstuffs and luxury goods.

The Finance of Output. — The question arises how the growth of output shown by the above figure was financed. As in the past the bulk of the finance was provided by bills which were discounted by the banking system. The total bill holdings of the banking system, excluding bank acceptances and *Solarwechsel*, increased from 6·01 milliard RM. at the end of 1934 to 8·0 milliards at the end of 1935, and 10·8 milliards at the end of 1936. As in this period a considerable amount of bills were consolidated by the issue of public loans, while the figures do not include bills held

by industrial firms or non-banking institutions, it is evident that there was a very large new issue of bills. In the case of the Reichsbank alone, its holding of bills at the end of each year increased from 4·2 milliard RM. in 1934 to 4·6 milliards in 1935, and to 5·5 milliards in 1936.

The whole technique of the finance of output was radically altered in comparison with earlier periods by the use of internal bills instead of loans and advances. Taking the large Berlin banks, the State banks and Clearing Associations, we find that their loans and advances and reimbursement credits fell from 5·5 milliard RM. in 1934 to 5·2 milliards in 1935, and 4·7 milliards in August 1936. In general the rôle of commercial banks as direct lenders to industry and trade was far smaller than it had been in the past. One indication of this can be seen in the fact that, although the total deposits of the large Berlin banks had risen by 200 million RM. to 6·3 milliard RM. in August 1936, as compared with 1935, they were still slightly smaller in 1936 than in 1933 or 1934 and over 1 milliard RM. lower than in 1932. To some extent, of course, this change can be explained by the much greater rapidity of circulation of deposits in 1936 and by repayment of a great deal of outstanding indebtedness, but it remains a remarkable feature of the new German financial system.

The Reform of the Banking System. — The Germans had felt deeply humiliated and resentful over the collapse of the whole banking system in 1931,¹ and when, in December 1934, the new law for the Regulation of Credit was passed, the banks were subjected

¹ See above, pp. 21-2.

to a most far-reaching control. The law had been preceded by a commission of investigation into the banking system at which the permanent nationalisation of the banks (they had virtually been nationalised in fact after the reopening of the banks in 1931) had been thoroughly discussed. It was finally decided to allow the banks to continue in private hands but under a very thorough supervision and regulation. A Credit Supervisory Board (*Aufsichtsamt für das Kreditwesen*) consisting of the President and Vice-President of the Reichsbank, four Secretaries of State and a member appointed by the Chancellor, and a Reich-Commissioner for Credit, were established as permanent authorities, the Commissioner being the executive agent of the Board. The Board was given power over all banks and credit institutions, except the Reichsbank and the Gold Discount Bank. The functions of the Board far exceed those of merely seeing that legislative provisions are properly carried out. It has power to refuse to allow a new bank to be established or an existing bank to open new branches or to amalgamate; it can close a bank if it considers that it is being improperly run; it can refuse to allow changes in interest rates or commission charges, and (in agreement with the Reichsbank Directorate) it can itself, if need be, fix rates and charges. Of even greater practical importance is the power of the Board to control reserves. The Board is entrusted with the duty of issuing instructions as to the investment of savings deposits, and of fixing the percentage of reserves against total liabilities (other than savings deposits), which each bank must keep. The reserves must be held in the form of (a) a cash reserve consisting of cash in hand and deposits

with the Reichsbank, to be determined from time to time by the Board, but not to exceed 10 per cent. as a mandatory requirement ; (b) a second reserve consisting of commercial bills with currency not exceeding ninety days, and of securities which are accepted by the Reichsbank as collateral (chiefly Treasury bonds and public loans). Here too the Board determines the minimum percentage, subject to the limitation that it may not fix a higher rate than 30 per cent. Within the prescribed limits the Board can vary the reserve ratios either upwards or downwards. In this way the Reichsbank, which effectively controls the policy of the Board, is given a new and important instrument of control over credit in addition to discount and open-market policy. A further series of provisions regulates the power of the banks to grant credit. The Supervisory Board has the duty of fixing the extent to which a bank's total liabilities (after deducting its liquid assets) may exceed its own capital, but with the statutory proviso that liabilities may always amount to not less than five times the amount of the bank's capital. Holdings of stocks (except those representing permanent participation in a company) and of bonds not quoted on German stock exchanges, are limited to a certain percentage of total liabilities less savings deposits. Total investments in real estate and permanent participations may not exceed the capital of the bank. Unsecured credits exceeding 5,000 RM. may be made only if the borrower submits a full statement of his financial position ; and credits to a single borrower must not exceed a certain percentage of the bank's capital — to be fixed by the Board. Under the law all affiliated companies are treated as a single borrower. When the total

indebtedness of a borrower at one credit institution exceeds the sum of one million RM. during a month, this must be reported monthly to the Commissioner for Credit. When a borrower has obtained loans at several institutions, the Commissioner may inform these institutions of the total indebtedness of the borrower and of the number of institutions involved.

Considering the law as a whole, it is clear that it is aimed chiefly at preventing a recurrence of the abuses which contributed to the banking crisis of 1931. But it goes beyond this in giving such extraordinarily wide controlling powers to the Supervisory Board and the Commissioner, that the banks have become merely another agent for giving effect to the general economic policy of the State. The Board has exercised considerable restraint in the use of its power to fix reserve ratios, and by the end of 1936 cash reserves were still on the average less than 3 per cent. of liabilities. Beyond doubt, however, the failure of banking deposits and loans to expand during the revival of 1934-36 can be attributed in part to the influence of the law of December 5, 1934.

Agriculture. — 1934 had seen the inauguration of the “battle of production” (*Erzeugungsschlacht*) in agriculture, which was intended to diminish the dependence of Germany on foreign sources, above all of fodder, fats and some textile materials such as flax and hemp. The extent to which Germany could cover her home requirements from her domestic production is shown in the following table drawn up by the Business Research Institute at the beginning of 1935.

It will be seen that although she was virtually self-sufficing in cereals and potatoes, she only covered half her requirements of fats and very much less of

such textile raw materials as she could grow on her own soil. Taking all foodstuffs together, she could produce about 80 per cent. of her needs at home under normal harvest conditions, after deducting food grown with the aid of imported fodder.

TABLE XV

PERCENTAGE OF HOME PRODUCTION TO TOTAL HOME CONSUMPTION FOR FOODSTUFFS AND AGRICULTURAL RAW MATERIALS (ALLOWANCE BEING MADE FOR FODDER IMPORTS)¹

	Per Cent.
Rye, wheat, barley, oats, potatoes, sugar, meat (other than pigmeat), liquid milk, hops	98-100
Bacon, fresh-water fish, vegetables	90-97
Pigmeat, fruit	80-90
Fowls, eggs, timber	70-79
Sea-fish	60-70
Total fats (including margarine and lard), hides and skins	50-59
Leguminous products	40-49
Tobacco	20-30
Flax, tannin	10-19
Wool	5-9
Oilseeds, oilcakes, vegetable oils	1-4

For the increase of her agricultural output Germany relied on a stable price policy, so adapted as to stimulate the raising of those products in which she was short ; on the improvement of farming methods by such means as the use of more fertilisers and machinery ; and on land reclamation and drainage, which was largely carried out by the members of the Labour Service. Compared with the dramatic success of Germany's industrial policy, the results of her efforts in the sphere of agriculture were but meagre — a bare 7 per cent. increase in terms of volume between 1933 and 1936. Harvests after 1933 were relatively

¹ Weekly Report of Business Research Institute, April 17, 1935.

unfavourable, and the reduction in 1936 of fodder imports (fodder and oilcake imported fell from 697,000 tons in 1935 to 226,000 tons in 1936) gave rise to difficulties in regard to the supply of animal products. As incomes were rising, consumption of foodstuffs also tended to grow, and in 1936 there were shortages of meat and butter in many parts of Germany. The shortages were confined to certain foodstuffs; they were most prominent in the large cities, and they were temporary. But they received great prominence in the foreign Press and gave rise to many inaccurate statements and forecasts that Germany was on the brink of starvation. The shortages were important, however, in that, together with many other factors which were operating at that time, they contributed to make 1936 (in spite of the conquest of unemployment) the most difficult and critical year from the economic point of view since the National Socialists had taken over the reins of Government.

Foreign Trade. — In the field of foreign trade the years 1934-36 saw the full working-out of the New Plan. Germany was covered with a network of boards controlling not only imports, but also the allocation of foreign raw materials inside Germany, with all their attendant disadvantages.¹

German merchants and manufacturers underwent severe trials at this time: many of the former had to endure the loss of trading connections with the outside world which had been laboriously built up since the war; the latter in many cases were unable to obtain the raw materials which they had been accustomed to

¹ Dr. Schacht himself referred on several occasions to these offspring of his organising ability as "odious things" (*etwas scheussliches*) and he often deplored in public the necessity for their existence.

use, or found their supplies rationed. Above all, the small man, especially the important class of handicraft workers whose requirements were easily overlooked, tended to come off worst. There was therefore much grumbling to be heard in the land.

Nevertheless the New Plan accomplished the main purpose for which it had been called into being. Whereas the balance of trade in 1934 had shown an excess of imports over exports of 284 million RM., this had been transformed in 1935 into a favourable balance of 111 million RM., and this had increased by 1936 to 550 million RM. This improvement had partly been achieved by restricting total imports to a low figure; in 1936 they were still less than in 1934 by 233 million RM. At the same time there were changes in the relative importance of the goods imported. Foodstuffs, tobacco, etc., increased slightly from 34·6 per cent. of total imports to 35·6 per cent., and raw materials and semi-manufactured products from 52·4 to 55·0 per cent., while finished products fell from 13 per cent. of the total imports in 1934 to 9·4 per cent. in 1936. There was also a significant change in the distribution of Germany's imports, which took the form of an increase in trade with the neighbouring countries of south-eastern Europe and with South America, while trade with the United States, Australia, France, Holland and Russia fell off largely.

Exports in 1936 were 600 million RM. higher than in 1934, the rise being due largely to the revival of world trade, but also to great efforts on the part of German exporting firms, aided, where German costs were above the competitive level in world markets, by levies on the rest of industry. The fact that

German import prices rose by 3·8 per cent. between 1935 and 1936, while her export prices fell by 2·8 per cent., meant that the terms of trade had moved against her and made her trading position more difficult. The export surplus achieved in the years 1936 and 1937 did not leave Germany much margin, for in 1935 her actual interest payments on her foreign debts transferred abroad amounted to 550 million RM., and though this was reduced in 1936, it was still over 250 million RM.; the expenditure of her tourists in foreign countries, restricted though it was, represented a considerable sum; and there were commercial debts which had arisen in 1934 and 1935 in connection with certain clearing agreements, especially with France and Yugoslavia, which had to be repaid. Against that, 1936 was the year of the Olympic Games in Berlin, the visitors to which are estimated to have spent 306 million RM., but the whole of this sum (which was expended in the form of tourist marks) was used for the repayment of Standstill¹ credits.

¹ Cf. above, p. 21.

CHAPTER III

THE SECOND FOUR-YEAR PLAN, OCTOBER 1936 TO MARCH 1938

By the autumn of 1936 the success of the First Four-Year Plan was no longer in doubt. Unemployment had ceased to be a serious problem and there was practically full employment in the building and engineering industries. The national income was rising steadily, and, allowing for the fall in prices, had reached the level of the boom year of 1928 ; industry and the banking system were fully liquid, and savings were coming forward increasingly in the capital market. Thus the economic circuit had been closed and the seemingly hazardous policy which was embarked on in 1932-33 had been vindicated by the result. Initially, the State orders provided the demand for work at a time when effective demand was almost paralysed and savings in the aggregate were non-existent ; the Reichsbank supplied the money funds needed for investment ; investment drew the unemployed into work ; and work created the incomes, and therewith the savings, out of which the short-term indebtedness previously incurred was able to be carried and, in a certain measure, to be funded.¹ The scepticism of the outside world, which, almost without exception, had refused to believe in the possibility of the German experiment succeeding, was proved to be unjustified. Recovery was no longer on paper ; it was there for everybody to see.

¹ See above, pp. 82-3.

THE ORIGIN OF THE PLAN

The very completeness of the success, however, brought with it a new set of problems of great difficulty and importance.

The expansion of incomes was accompanied by a growth of consuming power on the part of the population, due not so much to higher average incomes of those in employment as to the increase of the number of employed. This, as has been pointed out in Chapter II, led to shortages of certain foodstuffs and other consumption goods. At the same time the high level of output increased the need for imported raw materials of all sorts. It was this need which had led to the setting up of the New Plan governing foreign exchange in 1934, and which ever since had been the prime mover in extending State control and interference in the working of the economic system.

By the summer of 1936 the internal stresses in Germany on the economic side were at their maximum intensity. The peasants were complaining because the prices of their produce were being kept down, even though there was a very evident shortage of supplies. The wage-earners were grumbling because prosperity and a high level of employment were not bringing with them their usual concomitant of higher money wages ; while in spite of the control the prices of many articles were rising. The business men were discontented with the rigidity and complexity of State interference with the freedom of action. Finally, the more radical wing of the National Socialist Party was dissatisfied with the policy of the cartels and what appeared to be the growing influence of large industry.

THE SCOPE AND OBJECTS OF THE PLAN

At this juncture Herr Hitler announced in his speech at the Nuremberg Party Conference in September 1936 the Second Four-Year Plan. As supreme head, under Hitler, of the economic organisation of Germany for the purpose of carrying out the Four-Year Plan, General Goering was appointed with overriding powers over all the other Ministers, including Dr. Schacht, the acting Minister of Economics.¹ The appointment was in many ways significant. On more than one occasion earlier on, when matters were approaching a crisis, General Goering had been called in and given plenary powers. He was recognised to be a man who knew his own mind and was capable of quick decision; he could not be browbeaten or intimidated by indignant industrialists, however important they were; above all, he was not only an old Party man who was trusted by the masses of the people, but he was in favour of an efficient central administration by the State, and was able to resist irresponsible Party interference.

The Second Four-Year Plan had a number of different objectives, although they were all inter-connected. In the first place it was intended to make Germany independent, as far as possible, of all essential foodstuffs and raw materials for which her demand is inelastic. Not only Germany's own repeated experience in the post-war period, but also the recent attempt to force Italy to break off her Abyssinian campaign by the application of economic sanctions, had shown her that economic dependence could be

¹ Herr Funk replaced Dr. Schacht as head of the Ministry of Economics in January 1938, but the latter continued to be President of the Reichsbank.

exploited on political grounds even in times of peace, while the military importance of being self-sufficient for essential products in war-time is too obvious to need stressing. There was also the clearly expressed desire to insulate the German economy in a larger measure from the disturbing effects of external fluctuations.

There are a number of ways in which this independence is being fostered to-day. The output of the traditional raw materials which can be produced inside Germany is being expanded as far as possible. This can be seen in the increasing intensity of agricultural production, to which is allied the growth of the German fishing and whaling fleets; the greater utilisation of waste wood and German timber in general for making paper, cellulose, etc.; and the increasing acreage devoted to flax and hemp. The output of magnesium and aluminium based on German ores is being pressed on, while the Hermann Goering works in the Salzgitter district are a grandiose effort to exploit the vast deposits of low-grade iron ore, which had not previously been worked in Germany.¹ New raw materials, such as staple fibre, magnesium and aluminium alloys, plastic materials (bakelite), artificial rubber (Buna), industrial oils from coal, have been invented or improved, and are sub-

¹ The iron and steel industry in Germany at first refused to co-operate in the enterprise owing to the risks involved in a new process which had not yet been tried out in Germany, although it had been successfully employed by the Berlin firm of Brassert & Co. at the Corby works in Northamptonshire. The State therefore undertook it, and entrusted the technical direction to Mr. H. A. Brassert (an American of German descent). At a later stage, when it was clearly seen that the venture would be successful, the industry changed its attitude and expressed its willingness to take over the new works. But this time it was General Goering's turn to refuse, though early in 1938 the State unloaded a considerable block of its shares in the undertaking.

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stituted to an increasing degree for the more usual types of materials. In general, as in the building industry and road-making, materials whose supply is short (notably iron and steel) are replaced by cement or other materials which are relatively plentiful, and new technical devices are being adopted to make this possible. Every traditional process and method of production is being scrutinised to see whether alternatives can be found which will enable labour and scarce materials to be economised. German engineers and economists are talking in terms of a second Industrial Revolution, which will rival in importance the transformation effected by the early inventions.

From this angle the Second Four-Year Plan may be regarded as the mobilisation of all the resources of modern applied science and technique in the service of economic progress.¹ Finally, the forces of organisation and propaganda have been harnessed to a vast and intensive campaign against loss by wastage. House-to-house collections are made of such objects as empty tins, used toothpaste tubes, etc. Old rubber is regenerated, used oil is purified, the surfaces of metals are treated against rust, new uses are found for straw and other waste materials and so on.

A second aim is to increase the supply of consumption goods by widening and extending the raw materials which could be obtained within the territories of the Reich. The rapid rise in the world prices of raw materials in 1936, although it had helped Germany's export industries by increasing the pur-

¹ While it is clear that the Second Four-Year Plan has very important military objectives and, apart from this, that developments in modern technique which promote economic welfare may add greatly to military strength, it would be a mistake to regard the Plan as a whole as merely a phase of rearmament.

by Guillebaud, C. W.

chasing power of overseas countries, had turned the terms of trade against her and had increased her difficulties in financing imports. At the same time the expansion of German incomes and output in general had both increased the demand for consumption goods and the need for more raw materials. With the prospect of a rather inelastic world demand for German exports, one way of enabling a general rise in the standard of living in Germany to be effected was to increase the domestic supply of Germany's raw materials.

Thirdly, the larger the extent to which Germany can supply her own needs for the food, fodder and materials which she had been importing, the more of other products of a more luxury character will she then be able to import, and thus help to raise the standard of comfort of the people. Under the stress of raw-material shortage, food imports in particular have been kept down to a minimum. If Germany can diminish her requirements, in particular for raw materials, she will be able to import more food as a supplement to her own supplies, while the results of the cutting off of these supplies, *e.g.* in time of war, would then be less serious, for they would be surplus to her basic wants.

A further aim of the Plan in the more distant future is to provide means of employment on a very large scale in the consumption goods industries for those who may no longer be needed when the investment needs associated with rearmament have been satisfied.

The immediate and direct effects of the Second Four-Year Plan were to accentuate greatly the shortage of labour, which was already becoming acute in

the metal and building industries ; to increase the proportion of the real national income going into capital investment ; and to lead to a still greater degree of State control and interference with the free working of economic forces.

With a shrewd sense of popular psychology, no attempt was made to conceal this from the mass of the people. Both Hitler and Goering stressed the fact that at the moment the Plan would mean sacrifices. The worker must put on one side his immediate hopes for a higher standard of living, the business world their desire for more freedom for individual action, and everybody their wish for lower taxation. In return they were promised security from their enemies in time of war and from industrial fluctuations in time of peace, and, in some more distant future, a higher standard of living all round.

Before the actual work of implementing the Plan was taken in hand an important decision had to be taken. It would have been possible for General Goering with a small body of expert advisers to have acted as a sort of Economic General Staff for the whole country, while the execution of their orders would rest with the various Ministries and the Reichsnährstand. In fact, however, General Goering proceeded to set up a separate organisation, which was superimposed on that of the ordinary State Departments. Many of the more important posts in this organisation were given to military officers of high rank.¹ The main motive in these appointments appear to have been the belief that what was wanted above

¹ With a perhaps unconscious recollection of Cromwellian days the present situation is sometimes referred to by Germans as "the rule of the Major-Generals".

all at the moment was determination and quick decision. There was a feeling of impatience with the slow and cautious grinding of the wheels of the bureaucratic machine, and determination to use methods of war-time control for carrying out the Plan. The Colonels and Major-Generals were certainly not possessed of much economic knowledge, but since 1933 an important section of the General Staff has been set up for the study of war economics (*Wehrwirtschaft*), and in practice they have proved more ready to make use of expert economic advisers than the ordinary ministries, where the domination of the lawyers is still supreme. One net result of the Plan, however, has been to increase the complexity, cost and personal establishment of the State machinery of economic administration.

There were three urgent problems which had to be grappled with immediately: prices, labour supply, and the finance of the new investment requirements of the Second Four-Year Plan.

PRICES

So far as prices were concerned, this problem was solved for the time being by the appointment of a Commissioner for Price Formation with far-reaching powers.¹

THE SUPPLY OF LABOUR IN INDUSTRY AND AGRICULTURE

The shortage, above all, of skilled labour, which was becoming acute in the metal and engineering industries, in building and in agriculture during the

¹ See Chapter IV, pp. 171-81.

latter part of 1936 was inevitably accentuated by the new Plan.

As a result of the depression years there was found to be a serious lack of apprentices in the skilled sections of the engineering and building trades. One of the first decrees under the Plan made it obligatory on all firms in these industries employing more than ten persons to train apprentices according to a ratio of apprentices to skilled workers to be laid down by the Employment Board. Any firm whose circumstances were such that it could not take on the appropriate number of apprentices had to pay a levy to the Employment Board. By the end of 1937 there were in the metal industries 24 apprentices and in the building industry 16.5 apprentices for every 100 skilled workers. The total number of apprentices in industry in general increased from 566,000 in the middle of 1934, or 4.5 per cent. of the total workers employed, to 857,000 in the middle of 1937, when they were 5.4 per cent. of the total number employed.¹

Measures to increase the supply of apprentices could not, however, add to the number of skilled workers immediately available. Accordingly steps were taken to control the flow of such labour and to direct it into those employments which were of greatest material importance. Any firm taking on ten or more metal workers in a period of three months had to obtain permission from the Employment Board, and later on, in 1937, this requirement was extended to every individual new contract of employment. A priority list was established for the guidance of the Employment Boards with the following order of importance: rearmament, food supply, expansion of domestic raw

¹ Report of Reichskreditgesellschaft for 1937-38, p. 38.

materials, export industry, and housing for the working-class population. During 1936 there had been a considerable increase in private house-building, especially of the middle-class type, and this was now restricted in order to economise both in labour and iron and steel. A systematic search was also made for all those who had had any experience in metal work or building or in agriculture, but who had gone into other occupations; and special facilities were provided in the form of re-training and other encouragement to draw them back to their former trades. Particularly intensive efforts were made in this connection to induce those who had once been engaged in agriculture to return to the land.

The unnecessary turn-over of labour is also a factor of avoidable waste, and one of the decrees in 1936 was aimed at diminishing its extent. Since 1935 every firm and worker has had to have a Labour Book,¹ which contains his individual record, and without which he cannot obtain fresh employment. Under the new decree in four industries — iron and steel and engineering, building, brick-making, and agriculture — employers are given the power to refuse to hand over to a wage-earner or salaried employee his Labour Book if the worker wishes to terminate his employment before the expiration of the normal term of notice under his contract of service. The worker, however, has the right of appeal to a Labour Court.

Finally, in the spring of 1938, a much more drastic step was taken, for a decree was issued by Marshal Goering under which powers were taken to conscript labour from any of its existing employments for work

¹ The Labour Book has been of the utmost value to the German authorities in facilitating their control over the distribution of labour.

of urgent national importance, and these powers were in fact extensively used.

Apart from the control of the distribution of labour there were other ways in which the effective supply of labour could be increased. It is true that by the end of 1937 the reserves of unemployed labour had practically vanished. Of the half million workers registered as unemployed, only 86,500 could be regarded as fully employable and also mobile, while 255,000 were employable but not mobile, and the remaining 160,000 were no longer fully employable. Even so, by the end of April 1938 the registered unemployed had fallen to 338,000. Even in 1937 shortage of raw materials was still causing a certain amount of short time in the textile industries, and this was dealt with by depriving short-time workers in those industries of less than thirty years of age and without dependants of their right to unemployment relief, thereby putting pressure upon them to enter other occupations; and by allowing firms to reduce the number of their employees to a level at which the remainder could be employed on a full-time basis. The main reserves of labour consisted, however, in women, in persons who previously had been working independently, and in immigration. In the early days of revival the Government, by marriage loans and in other ways, was successful in diverting many women from industrial and clerical employment,¹ and all the forces of propaganda were brought into play to show that woman's place was in the home, and her main function the rearing of children. With the increasing

¹ Between 1932 and 1934 the number of men in employment rose by 2,640,000 and that of women only by 290,000. In October 1937 women were 30·74 per cent. of the insured population as compared with 33·26 per cent. in 1929.

scarcity of labour, however, the practical application of this policy has been revised, and women are now encouraged in every way to enter industry. At the end of 1937 it was announced that marriage loans would be granted even though the wife continued in employment, and in this field the more general social aims of the régime have been subordinated to the immediate necessities of the labour situation. The increase in female employment has hit particularly hard those who are dependent upon domestic servants, and an attempt was made in February 1938 to alleviate their lot by decreeing that in future no unmarried female worker under twenty-five years of age might be permitted to take employment in certain occupations unless she could show that she had previously been employed for at least twelve months either in domestic service or on the land.

Besides the larger use of female labour there were the other reserves in the form of postponement of retirement, immigration, etc. An estimate was made recently by the Business Research Institute of the relative magnitudes of the different elements for the period August 1936 to August 1937. It found that the total increase of employment less the decline in unemployment was 640,000, and then analysed this figure as is shown in Table XVI.

In the summer of 1938 it was stated by the Reichskreditgesellschaft that "There are, however, no longer any appreciable reserves still available to meet the shortage of labour".¹

There remain two other methods of increasing the supply of labour — the lengthening of the working day and the replacement of labour by machinery.

¹ Report for the first half of 1938, p. 41.

The first of these had almost reached its limits by the end of 1937, so far as the main investment goods industries were concerned, for the hours of work in these were already well in excess of eight hours per day. The general average of 7·68 for all industry

TABLE XVI

ANALYSIS OF INCREASE IN EMPLOYMENT (NEW ENTRANTS)¹

Natural increase through changes in age structure of population	170,000
Increase due to postponement in retirement age	100,000
Increased employment of female labour	200,000
Increase due to temporary immigration, the absorption of hitherto independent workers, etc.	170,000
Total	640,000

reflected the considerably lower working day in the consumption goods industries, especially leather and textiles (7·20 and 7·18 hours respectively).² The apparent reserve here is therefore not great in the long run, though there was still some scope for an increase in hours as a short-run measure. There are much wider possibilities in the form of the greater mechanisation and rationalisation of processes so as to economise in the use of labour ; if it were possible to increase the productivity of labour by only two per cent. in a year, this would be equivalent to the output of 150,000 workers with an eight-hour

¹ Weekly Report of the Business Research Institute, February 23, 1938, p. 16.

² The following figures (in hours) show the changes in the average length of the working day in industry since 1928 :

1928	1929	1932	1936	1937	March 1938
7·66	7·67	6·91	7·59	7·68	7·73

day. The actual increase in productivity in Germany during the last great rationalisation period of 1925 to 1932 averaged as high as 3 per cent. per annum.¹ But at the moment (summer 1938) there are obstacles in the way of rationalisation, owing to the full employment of the engineering industries² which did not obtain in the earlier period.

In some ways the most critical, and certainly the most difficult, of the labour problems with which the German authorities have been faced in connection with the carrying out of the Second Four-Year Plan, has arisen from the supply of labour to agriculture. Before the war there used to be over half a million immigrant labourers, mostly from Poland, who came into Germany every year to help with the harvest, and there was a large internal migratory population which was available at the period of peak demand in the summer and autumn. The changed conditions after the war and since 1933 have largely diminished the supply from both these sources.

This seasonal shortage has been dealt with to some extent by the introduction, though on a much smaller scale than before the war, of foreign labourers, especially from Italy (in 1937 the total number of seasonal immigrant workers was about 100,000), but mainly by using the Army, the Land and Labour Services, and various Party organisations.

The major problem, however, is that of the "flight from the land" of the peasant and the agricultural workers. This is, of course, nothing new; it is everywhere a long-standing and natural concomitant of the growth of urbanisation. But in recent years it has

¹ Institut für Konjunkturforschung, *Vierteljahrsheft* 3, 1937-38, p. 277.

² It is difficult to obtain delivery of orders for new machinery.

undoubtedly been accentuated in Germany by the very success of the general economic policy of recovery, despite every endeavour to prevent it.

The wages of agricultural labour have only slightly been improved since 1932, and remain far lower than industrial wages. Even allowing for free board and lodging and certain incidental advantages of the land worker, he could not but regard himself as poorly remunerated at a money wage of 10 to 16 RM. a week, as compared with weekly earnings of workers in the building trades which were frequently over 60 RM. a week, and in some exceptional cases in work on new factories in country districts, were known to reach as high as 120 RM. a week in the summer of 1938.

Changes in industrial technique within the last ten years have lessened the length of training required for many kinds of relatively skilled operations and improved the chances of the non-specialised man of good average intelligence. The pull on agriculture has been reinforced lately by the great demand for labour in the investment goods industries, which can absorb additional workers without limit and offer them continuous employment at relatively high wages. Between June 1933 and June 1937 the numbers employed in the metal industries rose from 934,000 to 2,397,000, and those in the building industries from 580,000 to 1,815,000. On the other hand, in agriculture the number of labourers and salaried workers, which in 1933 was about 2·5 millions, had fallen by 168,000 by March 1938 ; it had thus lost considerably more than the whole of its own natural increase during these years.¹ The occupational census of 1933 showed

¹ The Reichsbauernführer stated at Goslau in the autumn of 1938 that the total flight from the land since 1932 (including women and family members) exceeded 700,000.

that there were at that time in addition 2 million independent farmers and 4.5 million family members engaged in agriculture.

It will be remembered that one of the earliest and most radical measures of the National Socialist régime had been the passing of the Hereditary Farm Law in 1937,¹ under which some 650,000 farms, with about one-third of the agricultural population of Germany, were entailed from father to son. One result of the Law has been that the younger sons, to a greater extent than before, have been constrained to leave the land and seek their livelihood in other occupations, though some attempt has been made to prevent this by giving them priority in the occupation of new farms. Again it has been found that conscription, which takes the agricultural worker for two years from his home district and familiarises him with the life of cities and with entirely different living conditions from those to which he is accustomed, often unsettles him and makes him reluctant to return to farming.

Since the inauguration of the Second Four-Year Plan the establishment of new raw material and other factories in country districts in the centre of Germany, largely on strategic grounds, has had a serious effect on the supply of local agricultural labour. At the same time, the eastern frontier districts of Saxony and Silesia, and East Prussia, where the economic revival has been least marked, have experienced a drain of labour into the rest of Germany. For a different set of strategic reasons this depopulation of the eastern frontier of Germany is highly unwelcome to the authorities, and new factories are actually

¹ See above, pp. 60-1.

being established there now, in spite of their greater liability to enemy attacks in the event of war, in order to hold this movement in check.

Despite all the powers at the disposal of the German State, it has not proved possible to stop the flight from the land. An attempt was made in 1934 to check the excessive growth of the great cities by prohibiting the migration of country workers (both agricultural and industrial) to Berlin and to Hamburg and Bremen. By a more general measure, also passed in 1934, the permission of the Employment Boards was necessary before any one who had been engaged in agriculture in the preceding three years, could be taken on in any other than an agricultural occupation. This has proved a useful measure, but its application has been limited by the difficulty of refusing permission in many cases, when it would obviously be to the advantage of the applicant, and where the employing firm was in urgent need of labour and engaged on work of national importance. As in so many other aspects of the German economic system, two aims of policy are here in conflict with one another, and some compromise has to be found between the two.

Probably the most hopeful and constructive line of approach to the problem of agricultural labour shortage is to be found in attempts which have been made and are being made to increase the amenities of life on the land. In every village in the country cinemas have been provided, and cabaret and other theatrical performances are organised on a very wide scale by *Kraft durch Freude*.¹ There is still a great shortage of houses in agricultural districts, and much more

¹ See below, p. 197.

could be done in the way of improving housing conditions on the land. The crucial difficulty of low wages is one that it is difficult to solve directly.¹ Indirectly, however, it can be tackled by increasing the productivity of agricultural labour, above all through increased mechanisation. The electrification of the countryside and the greater use of machinery would have the important additional advantage of diminishing the arduousness of many agricultural operations.

What is aimed at is the rationalisation of agriculture in the interests not merely of efficiency, but also of improving the working conditions of those who live on the land. Again, where everything is tending to make the youth of the country "machine-minded", it would be a great advantage if the country boy could find openings for his mechanical bent in agriculture itself. German agriculture, even on the large farms, is relatively less mechanised than agriculture in Great Britain, and there remains plenty of scope for development in this direction. An interesting step was taken in November 1937, when the Agricultural Estate introduced a system of training for agricultural labour which was designed to give the latter the recognised status of a skilled craft. The plan envisaged a two years' general course of instruction in agriculture, followed by a two years' special course, and leading up to a technical examination, on the lines of the "master's" examination in force in the skilled handicraft occupations. In a country where status is as important as it is in Ger-

¹ The shortage of labour is compelling the farmers to offer higher wages, and in 1936-37 the weekly earnings of many agricultural workers were about 20 per cent. higher than in 1932-33.

many it is probable that this will do a good deal to raise both the self- and public-esteem of the agricultural worker.

In general, then, the year 1937 has witnessed a state of almost full employment in Germany, and labour now appears as the principal, though not the only limiting factor in the expansion of output and economic activity. Economy in the use of labour has become the order of the day, and there is thus a fundamental transformation from the early days of the First Four-Year Plan, when everything was being done to encourage the additional employment of labour.

INVESTMENT AND SAVINGS

The pressure on the constructional industries, on iron and steel and engineering, was already great when the Second Four-Year Plan added to the demands of rearmament, housing, the motor roads and other great public works, the construction of enormous new factories for the manufacture of raw materials based on domestic supplies of such products as wood, coal, chalk, low-grade iron ores, etc. On the one side there arose problems of the allocation of labour, iron and steel, etc., which were dealt with by a great intensification of the rigour of State control through the new organisation set up to administer the Plan. With this aspect we have already dealt. On the other side, there was the financial question of how the capital funds required to finance the new enterprises were to be obtained. The Government made it known that they expected the risks to be borne by existing industries and a large part of the capital put up by them. The ban on new issues on the capital market

which had been almost complete until 1936 was relaxed in that year, when bonds to the value of 47 million RM. and shares to the value of 395 million RM. were issued for industrial purposes. Although in 1937 the share issues fell to 333 million RM., the issue of industrial bonds rose to 258 million RM. Apart from these issues, industry was required to finance its share of the new capital cost out of profits, *i.e.* to plough back undistributed profits into investment.¹ At the beginning of 1938, Colonel Loeb, the head of the raw materials section of the Second Four-Year Plan organisation, stated that the firms undertaking the formation of the new enterprises under the Plan had contributed approximately 30 per cent. of the finance required. The capital market, by share or bond issues and by taking over loans, provided 50 per cent. A further 8 per cent. was provided by the banks and 12 per cent. by the State. To facilitate borrowing on the capital market, firms are encouraged to join together to form consortia, which can borrow on the collective security of all their members, while the State in turn, in cases where the risks are great and initial costs of production high, has entered into contracts ranging from five to ten years, during which it guarantees to the firms concerned a price which ensures a reasonable profit after deducting costs and depreciation. The contracts further allow of a considerable increase of profits where the firms are able to lower their costs.

An interesting special case of industrial capital finance was provided by the decision on April 1938 to raise the capital of the Hermann Goering Works for

¹ It has been estimated that for the five years 1933-37 the total amount of investment provided out of profits was 6 milliard RM.

the extraction and utilisation of low-grade iron ore from 5 million RM. to 400 million RM. Of the total, 270 million RM. representing ordinary shares were taken over by the Reich itself, while the remaining 130 million RM., in the form of $4\frac{1}{2}$ per cent. preference shares passed into private hands, part being allocated and part being subscribed in the open market.

Considering investment as a whole, we find that gross investment increased from 13.8 milliard RM. in 1936 to 15.5–16.0 milliard RM. in 1937, while net investment reached the very high level of 9–10 milliard RM. as compared with 7.6 milliard in 1936. The national income rose from 65.0 milliard RM. in 1936 to 71.0 milliard RM. in 1937 ; hence gross investment which was 20.1 per cent. of the national income in 1936 increased to 22.5 per cent. in 1937. This compares with 18.2 per cent. in 1928, the peak year of the last boom. Thus, for an increase of 2 milliard RM. in gross investment, there was an increase of 6.0 milliard RM. in the national income.

The capital market as a whole developed on the same lines as in 1935–36. Three large loans were placed in 1937, the first consisting of 12-year bonds to the amount of 700 million RM., the second and third of 15-year bonds amounting to 800 million and 850 million RM. respectively. These were followed by two more loans in the first half of 1938, the first consisting of 18-year bonds amounting to 1,400 million RM. and the second (May 1938) of 20-year bonds amounting to 1,600 million RM. Of the loans issued from January 1937 to May 1938, as much as 3,600 million RM. were issued for public subscription, or 68 per cent. of the total, the remaining 32 per cent. being placed directly with savings banks, insurance

companies, etc. Looking back on the way in which public loans have developed since their first tentative issue in September 1935, it can be seen that from issue to issue the loans have increased in size; they have followed one another more quickly in time; they have increased in duration from 10-year bonds to 20-year bonds for the latest issue; and, lastly, an increasing share of the loans has been offered for public subscription instead of being directly placed. By May 1938 the total amount of public loans issued since the beginning of 1935 was 11.05 milliard RM., of which 6.2 milliards had been offered for public subscription. In addition to this very large volume of funding loans there was also a considerable amount of debt redemption; including tax certificates, a total of 1.75 milliard RM. of Reich debt was redeemed between March 1935 and March 1938.

The Reich Statistical Office has compiled an estimate of the increase in private savings and holdings of cash by the general public since 1933, which is set out in Table XVII.¹

One salient feature which emerges from this table is the small amount of savings invested directly by the savers in bonds or shares. Deducting the industrial bond issues for 1937 of 258 million RM., it can be seen that of the 2,050 million RM. of Reich loans offered for public subscription in that year, only 781 million RM. had actually been subscribed by the public to the end of 1937. Again, of the total value of private houses and dwellings built in 1936 and 1937, which is estimated at 4 milliard RM., not more than 1,475 millions were provided by private funds. Public funds accounted for only 375 million RM., while the

¹ Report of Reichskreditgesellschaft for the first half of 1938, p. 69.

remainder (2,150 million RM.) was provided through mortgage and savings banks, insurance companies and other financial institutions, amongst which building societies figure but only to the extent of 155

TABLE XVII

INCREASE IN PRIVATE SAVINGS AND HOLDINGS OF CASH

	In Million RM.				
	1933	1934	1935	1936	1937
I. <i>Long Term</i> —					
1. Savings deposits :					
(a) with savings banks .	660	704	1,005	795	1,435
(b) with other banks .	- 40	253	239	289	388
2. Insurance : *					
(a) Life companies .	251	286	435	433	529
(b) Social funds .	139	433	455	703	873
3. Security purchases : †					
(a) Bonds ‡ .	- 328	195	103	665	1,039
(b) Shares .	91	143	156	395	333
Total .	773	2,014	2,393	3,280	4,597
II. <i>Short Term</i> —					
1. Bank deposits .	15	1,059	819	1,239	1,007
2. Tax Certificates, Treasury bonds, “ Special ” bills, etc. .	710	- 356	- 162	809	756
3. Cash holdings .	73	257	408	591	535
Total .	798	960	1,065	2,639	2,298
I and II Total .	1,571	2,974	3,458	5,919	6,895

* Increase in capital investments.

† New securities placed with the public, *i.e.* not including increases in security holdings of banks, savings banks and insurance companies.

‡ Including Reich loans.

million RM. It is evident that the saving public in Germany prefers to have its money invested for it by financial institutions rather than bear the risks of a direct investment on its own account. This is probably mainly due to the long-run effects of the great inflation of 1922–23, which destroyed the

accumulated money wealth of the middle classes, and left few substantial private fortunes in Germany. It is the small individual savings of the masses which account for a great part of the capital accumulation shown in the last table.

The banks themselves (including the Reichsbank and other public banks, the savings banks and twenty-five important commercial banks) increased their security holdings from 3·5 milliard RM. in April 1933 to 9·2 milliard in April 1936, and 10·3 milliard in April 1938. At the same time, private and social insurance bodies increased their security holdings from 1·4 milliard RM. in April 1933 to 3·6 milliards in April 1937, and to 4·1 milliards at the beginning of 1938. A very large part of these securities consisted of public loans.¹

The budget revenues of the Reich continued to expand during 1937-38 and to provide the finance for an important part of long-term investment.

The total tax revenue of the Reich rose from 11·5 milliard in 1936-37 to 14·0 milliard RM. in 1937-38, as compared with 6·9 milliards for 1933-34, and it is probable that there has been a large excess on income account above recurrent expenditure which could be used for investment purposes.

If to the 14·0 milliard RM. for the Reich budget there be added about 4·0 milliard RM. of provincial and local taxes and 1·6 milliard RM. of unemployment insurance contributions, there results a total of 19·6 milliard RM. or 27·6 per cent. of the national income of 71 milliard RM. in 1937. Nor was this all, for there must also be taken into account the large contributions

¹ By a Decree of April 1938, social insurance funds are required to hold not less than 50 per cent. of their resources in the form of Government loans.

from wage earners and employers in respect of health and invalidity insurance, the Labour Front and various other levies, and it is therefore not surprising that the balance of the national income available for consumption was not great, after income-receivers had set aside another 6 to 7 milliard RM. in the form of savings.

THE FINANCE OF OUTPUT.¹

Throughout 1937 and down to March 1938 working capital, and to some extent fixed capital investment, continued to be financed largely by bills. The total bill holdings (chiefly "special" bills) of the Reichsbank, savings banks, commercial banks, etc., excluding acceptance liabilities and the *Solarwechsel* of the Gold Discount Bank, amounted to 10·8 milliard RM. at the end of 1936. A year later they had risen to 13·8 milliard RM. Comparing the end of 1932 with the end of 1937, there had been a rise of 9·5 milliard RM. in the total holdings of bills by the banking system. This does not, however, comprise the whole of the bill holdings of the economic system, for the bills in possession of private bankers and of industrial and commercial firms are not included. It has been estimated by a competent German authority² that the total amount of "special" bills at the end of 1937 was 12 to 13 milliard RM., giving an aggregate of 16 to 17 milliard RM. for all bills at that date.³

Despite the increase in investment in 1937 due to the

¹ For a more comprehensive account of the finance of the German recovery, the reader is referred to an article by T. Balogh, "The National Economy of Germany", *Economic Journal*, September 1938, which appeared when this book was almost completed.

² K. A. Herrmann, in *Deutsche Wirtschaftszeitung*, April 28, 1938.

³ The commercial bill holdings of the banking system alone amounted to 6·3 milliard RM.

Second Four-Year Plan, the rate of growth of bill holdings in that year was slower than in 1936, the increase in 1937 over 1936 being 21·7 per cent. as against an increase of 26 per cent. in 1936 over 1935. This is to be explained partly by the large amount of long-term loans placed on the capital market, and partly by the increasing volume of investment financed by industry out of profits and by funds drawn from budget revenues. Some indication of the change-over which was taking place in 1937 from bill finance to security finance can be obtained from the following table,¹ compiled from the balance-sheets of the commercial and savings banks together with the State (*Länder*) and provincial banks and Clearing Associations.

TABLE XVIII
CHANGES IN BILL HOLDINGS OF BANKS, 1933-1938

	Average Annual Increase (in Million RM.)	
	April 1933-April 1938	April 1937-April 1938
Increase in bills	+ 773	+ 224
Change in Treasury bills	+ 77	- 89
Increase in securities (especially Reich loans)	+ 1,312	+ 2,031
Decline in loans and advances	- 277	- 111

A closer analysis of the original figures shows that the whole of the increase in bills was in the State and provincial banks and Clearing Associations, and that the bill holdings of the commercial and savings banks actually declined between April 1937 and April 1938.

By the beginning of 1938 it was nevertheless becoming clear that the use of bills as a means of

¹ Report of Reichskreditgesellschaft for the first half of 1938, p. 62.

financing investment, except in the form of short-term, self-liquidating loans for working capital, was reaching its limit. Full capacity had been attained over a considerable part of the industrial field, and further expansion of credit was likely to have a serious inflationary effect on the price level. In the case of the Reichsbank and Gold Discount Bank, which together determine the volume of central bank money, the holding of commercial bills ("special" and other bills) increased by nearly 20 per cent. — from 5.7 milliard RM. in April 1937 to 6.8 milliard RM. in April 1938.

It is true that the figures of the growth of the volume of money alone do not, at first sight, appear to bear out the conclusion that there had been a monetary inflation during the great period of economic revival from 1933 to March 1938. Thus the circulation of notes and coin increased only by 33 per cent. between February 1933 and February 1938, whereas the national income increased by 52 per cent. between 1933 and 1937; while, if we take the gross figures for total wages and salaries in the first three months of 1933 (6.1 milliard RM.) and compare them with the corresponding figures for the first three months of 1938 (10 milliard RM.) we find an increase of 64 per cent. There can, of course, be no doubt that the velocity of the cash circulation had much increased during these five years, though account must also be taken of the growing amount of gross income drawn off in taxation and of the rise in savings.

Much more important, however, than the circulation of cash in the narrower sense of the term, is the amount and, above all, the rapidity of circulation of credit. There are no satisfactory figures which show

the total volume and turn-over of banking credit, but the best index, the total of Reichsbank giro clearings, which had fallen from 347.4 milliard RM. in 1928 to 251.8 milliard RM. in 1933, rose to 426.8 milliard RM. in 1937 ; at this latter date it was approximately 80 milliard RM. more than in the last boom year of 1928. During the first three months of 1938 these clearings were 17.9 per cent. higher than in the corresponding period of 1937, and 86.2 per cent. higher than in the first three months of 1933. While it was doubtless true that the velocity of circulation of bank credit was low in 1933, which was still a depression year, it was almost certainly greater in 1937-38 than in 1936-37.

It was these latter figures, combined with the growing inelasticity of the short-period supply curves of industrial products, which led to a most important change in financial policy in the spring of 1938. The German Government announced through Dr. Schacht that, as from April 1, 1938, no new "special" bills should be issued. Thus the era of pre-financing (*Vorfinanzierung*, as the Germans call it) was brought to an end, and it was declared that the finance of new investment must be met in future out of the tax revenues of the Reich and out of long-term issues placed on the capital market. As an interim measure, to tide over the period of transition from the old to the new method of finance, the Minister of Finance was empowered to issue six-monthly "delivery bills" (*Lieferschatzanweisungen*) for payment of public contracts. The intention was that the volume of these bills outstanding should not be larger than could be fully repaid on maturity without the need of prolongation. The new bills were not to be eligible for

re-discount with the Reichsbank, though they could serve as cover for Reichsbank loans, and they were to carry interest at 3 per cent. Their amount also was to be published regularly. The significance of this change can hardly be over-stressed. It meant the official recognition of the fact that new incomes and savings could no longer, as in the past, be created *as a result* of the creation of additional money, and that for the future the rôle of money in the capital market must be limited to acting as the mechanism for the transfer of savings to the investment market. Henceforward, and so long as these conditions should last, the German economic system was to function according to the "rules of full employment".¹ It should be noted, however, that the new system of financing was devised and announced before the annexation of Austria and before the intensification of rearmament owing to the European tension over the dispute with Czechoslovakia.²

¹ For a discussion of this and allied topics, see below pp. 214-5, 234-5, 251-70.

² The unforeseen and highly abnormal situation, which then developed so rapidly, upset all the financial calculations on which the scheme had been based. Far more "delivery bills" had to be issued than had been expected, and by September 1938 their issue amounted to 2½ milliard RM. Of these approximately 2 milliard RM. had been absorbed by the banking system, whose deposits rose by 1½ milliard RM. In order for this to be possible the banks by the end of August had been compelled to borrow 600 million RM. from the Reichsbank, but the crisis of September caused them to deposit bills with the Reichsbank in that month alone to the extent of a further 1½ milliard RM. However, during the first three weeks of October 1938 the Reichsbank was able to decrease its holding of bills and other assets by no less than 1½ milliard RM., or by nearly 90 per cent. of the peak level of September, in spite of the fact that another Reich loan of 1,850 million RM. was successfully placed on the market during that month. It was also possible to redeem 400 million RM. of "delivery bills" issued in March, and which fell due in September. With the end of the crisis, and having regard to the continued expansion of the national income and the tax revenue, it would be possible to return to the original basis of the scheme and to avoid further large-scale expansion of central bank credit, provided that outlay on rearmament is kept within bounds.

THE PROBLEM OF INDEBTEDNESS

The foregoing account of the finance of investment and output shows that there has been a continuous and rapid increase in the aggregate indebtedness of the German State, and the question arises whether this has been so great as to constitute a menace to the financial stability of the system.

The volume of indebtedness of a country must clearly be considered in its relation to the size of the national income measured in money; while for purposes of comparison it can be related to the amount of indebtedness at earlier periods, and, with due caution, to the indebtedness of other countries.

Before the war of 1914 the German national income was 45·7 milliard marks, and the public indebtedness (Reich, States and local authorities) was 32·6 milliard marks. At the end of the war it was 120 milliard marks, but all this was wiped out by the great inflation, except for 5·5 milliard RM. of public debt which was re-valorised after the stabilisation of the currency. The interest on the re-valorised debt was only 300 million RM. per annum, whereas, in the absence of further inflation in 1919 and subsequent years, the interest on the pre-war and war debt would have been 6 milliard marks per annum. By March 1931, when the national income was 57·5 milliard RM., the public debt of Germany amounted to 25 milliard RM. Since that time the officially recorded debt has grown to approximately 32 milliard RM. in 1937. In addition to this there is an unknown amount of unrecorded public debt owing to the issue of bills to finance employment and public investment. It seems improbable, however, that their total at the end of 1937

could exceed 15 milliard RM. as an upper limit. This would give a total of the order of 47 milliard RM. for aggregate public indebtedness as compared with a national income of 71 milliard RM. The German figure seems modest beside the £8,000 millions (160 milliard RM.) of the British public debt, to which must be added, to make it comparable, some £1,500 million of local indebtedness as well. It must be remembered also that an appreciable part of the new public indebtedness is productive,¹ and that the virtual suppression of the private capital market during these years has meant that public indebtedness on long-term capital account has taken the place of private indebtedness. In view also of the fact that the new "short-term" debt is really a long-term debt, since the Government can decide when it will pay off, there can be little doubt that the total size of the public debt was not a serious factor in the German economic situation at the end of 1937. The growth of interest charges, as the debt increases is, of course, a burden on the budget and there is some evidence that this was beginning to affect financial policy early in 1938.²

THE RATE OF INTEREST

As a result of the increasing liquidity of the whole system down to March 1938,³ there was no difficulty in stabilising the long-term rate of interest at approximately $4\frac{1}{2}$ per cent. for public bonds and 5 per cent. for industrial bonds ; the price of $4\frac{1}{2}$ per cent. public

¹ See below, pp. 235-9.

² Cf. the fact that the new "delivery bills" are only to yield 3 per cent. in contrast to 4 per cent. in the case of the "special" bills.

³ The cessation of the issue of "special" bills at the end of March 1938 was likely to diminish liquidity, although the Reichsbank had power to offset this effect by making open-market purchases of securities if it so desired.

bonds was 98.1 for the average of 1937, and 99.7 in May 1938, while the corresponding prices of 5 per cent. industrial bonds were 101.8 and 102.5. In the short-loan market the Reichsbank re-discount rate remained unchanged at 4 per cent., at which it had stood ever since September 1932. The private discount rate, which had been 2.96 per cent. for the average of 1936, and 2.91 per cent. for the average of 1937, fell slightly more to 2.88 per cent. in May 1938. Call money showed a rather greater fall since 1936, the corresponding rates being 3.18 per cent., 2.9 per cent. and 2.63 per cent. When it is remembered that the demand for capital for investment purposes was probably more intense during 1937 and the first half of 1938 than it had been at any other period since the war of 1914-18,¹ and that a state of virtually full employment had been reached, the success of the policy of maintaining low interest rates must be regarded as a remarkable achievement.

It may be said, of course, that in comparison with England and the United States, a long-term rate of $4\frac{1}{2}$ per cent., as measured by the yield of public bonds, is a high one. This is true, and the desirability of its reduction is one of the most frequently discussed matters in the German economic Press. Technically speaking, there can be no doubt that it is within the power of the financial authorities now to lower it to 4 per cent. or even less if they wished to do so. But the whole banking system has become adjusted to a $4\frac{1}{2}$ per cent. rate, and the banks, savings banks, co-operative and insurance societies, would have difficulty in covering their costs and making a profit if the

¹ During the boom year 1928 call money stood at 6.7 per cent. and the private rate of discount at 6.5 per cent.

return on their vast holdings of securities were reduced. Moreover, under existing conditions, with the important exception of working-class housing and some branches of agriculture, the prospective return on investment is for the most part above the rate of interest, so that private investment has to be curbed and restricted. A fall in the rate would not, therefore, serve a useful purpose in stimulating the further increase of investment. Again, the Government is still placing very large loans on the market, and its policy now as in the past is directed to the *stabilisation* of interest rates. A fall in the long-term rate would exert a disturbing influence in the capital market, and it would be a matter of speculation what effect it would have upon the volume of individual saving which it is desired to keep as large as possible. A lowering of the rate would also have the practical disadvantage in the absence of conversion of bringing the great block of existing bonds above par, thus involving the investor in greater risk of loss than if he were buying below par. The argument in favour of a reduction is based chiefly on the desirability of a lower rate of interest in house construction and on the benefit to the finances of the Reich if it could borrow at less than $4\frac{1}{2}$ per cent. So far as housing is concerned it is probable that this can best be dealt with by direct State intervention and, if necessary, by subsidising working-class housing. The Reich, on its side, would not benefit much immediately from a lower rate, unless it were to proceed at the same time to convert its existing loans to the new rate.¹ It is

¹ The first of the new consolidation loans was issued in 1935 in the form of Treasury Bonds to run for 10 years, but the latest issues in 1938 are for 20 years.

unlikely therefore that there will be a fall in the interest rate for some years to come, but circumstances may well arise later on which will make such a step advantageous.¹

PRODUCTION

With the growth of investment there went a large increase in the volume of production, in spite of the

TABLE XIX
GROSS VALUE OF CONSUMPTION GOODS OUTPUT ²

	Milliard R.M.	
	1936	1937
Manufactured foodstuffs, beverages, tobacco, etc.	16.0	17.0
Textiles	6.5	6.8
Clothing	2.7	2.9
Furniture	0.9	1.0
Miscellaneous (boots and shoes, leather goods, utensils, etc.)	2.0	2.3
	28.1	30.0

fact that output was now straining at the limits of capacity of many industries. The Germans in fact noted with surprise that output in some cases rose above 100 per cent. of what, on existing methods of reckoning, had been regarded as representing full capacity. Taking 1928 as 100, the total index of production rose from 107.8 in 1936 to 118.8 in 1937, and to 124.6 in March 1938, while the index for production goods alone rose from 112.9 to 126.0 and 131.0 for the same periods. As before, the output of consumption goods lagged far behind the expansion of production

¹ See below, pp. 260-1.

² Report of Reichskreditgesellschaft for 1937-38, p. 13.

goods, but also showed a considerable increase. The corresponding figures for consumption goods were 95·6 in 1936, 101·5 in 1937 and 109·3 in March 1938.

In 1937 the output of consumption goods industries in terms of volume was very slightly above the volume in 1928, but considerably less in terms of values at 1937 prices, owing to the fall in prices since 1928. Comparing 1937 with 1936 the change in the gross value of consumption goods output can be seen in Table XIX.

In 1937 the total value of all industrial production was 75 milliard RM., so that in that year production goods accounted for 45 milliard RM. This compares with 48 milliard RM. for production goods and 37 milliard RM. for consumption goods in 1928.¹

The analysis just given of gross output for 1925 and 1937 does not, however, fully reveal the remarkable extent to which the production goods industries in recent years have outstripped the consumption goods industries in the process of recovery. The abnormal character of the present expansion is brought out more clearly if it is compared with the previous revival of 1926–29 :

¹ Report of Reichskreditgesellschaft for 1937–38, p. 4. It may be noted that in October 1928 the wholesale prices of production goods (1913=100) stood at 138·6, and of consumption goods at 176·1. The corresponding figures for October 1937 were — production goods, 113·1, and consumption goods, 135·6.

TABLE XX

PROPORTIONAL CHANGE IN OUTPUT OF PRODUCTION AND CONSUMPTION GOODS¹

	(a) Proportional Change in Output of Pro- duction Goods	(b) Proportional Change in Output of Con- sumption Goods	(c) Ratio of (a) to (b)
	Per Cent.	Per Cent.	
1926-29	+ 58	+ 43	100 : 70
1929-32	- 56	- 29	100 : 50
1932-37	+ 172	+ 39	100 : 23

For the last period, 1932-37, a similar comparison, based on the employment figures in industry and handicrafts, as set out in Table VI* in the Statistical Appendix (p. 278), shows results of the same order of magnitude :

TABLE XXI

PROPORTIONAL CHANGE IN EMPLOYMENT IN PRODUCTION AND CONSUMPTION GOODS INDUSTRIES

	(a) Proportional Change in Employment in Production Goods Industries	(b) Proportional Change in Employment in Consumption Goods Industries	(c) Ratio of (a) to (b)
	Per cent.	Per cent.	
July 1932 to July 1937	150	40	100 : 27

During the whole period of revival two opposing forces were affecting productivity per head. The first of these was the technical improvements, which were being carried into effect and supplemented by the fall in average costs per unit of output as firms moved nearer to full capacity. The second was the growth in the numbers of employed workpeople, an increasing

¹ The figures for 1926-29 are derived from data given in the *Vierteljahrsheft* of the Institut für Konjunkturforschung, 1935, Heft 1, Teil A, p. 41 ; while the figures for 1929-32 and 1932-37 are based on Table XXXVI (p. 205 below).

number of whom consisted of women or of older men and others whose efficiency was below that of the majority of those previously in employment. On the whole the former of these two forces outweighed the latter, with the result that the average productivity of the industrial worker is estimated to have been 10 per cent. higher in 1937 than in 1933. It is this increase in productivity, combined with the absorption of the whole working population of the country into active production, which explains how it comes about that Germany has been able to carry out such an immense volume of investment (productive and unproductive) ; to maintain a large army, labour service, etc. ; and yet on balance to raise the level of the standard of living as compared with that of 1933.

AGRICULTURE

To the agricultural sector a very important rôle was allotted in the Second Four-Year Plan. The aim was to make Germany completely self-sufficing for the supply of foodstuffs, and at the same time to increase largely the domestic output of agricultural raw materials. To some extent these two objectives were conflicting — the rise in the production of flax from 5,400 tons in 1934 to 33,900 tons in 1937, and of hemp from 200 tons to 4,200 tons in the same period, was obviously at the expense of foodstuffs which could otherwise have been grown on the land with the labour employed on its cultivation. Labour, even more than land, was in fact the limiting factor in agricultural production in 1937–38. However, the acreage under flax and hemp was very small in relation to the total cultivated area under food, and as the

increased output of flax meant that Germany in 1937 could produce two-thirds of her requirements at home as compared with only one-tenth in 1934, the sacrifice was worth making from her point of view.

The new "battle of production" inaugurated under the Second Four-Year Plan was conducted on the following lines :

Firstly, one milliard marks was allocated for the years 1937 to 1940 for land improvements, such as draining and reclamation of waste lands, by means of which it was hoped to improve 2 million hectares (5 million acres). As it was estimated that 370,000 hectares had been withdrawn from agriculture since 1933 for public purposes such as roads, buildings, etc., the need for adding to the available supply of cultivated land was urgent.

Secondly, by cheapening the price of artificial manures it was hoped (with success) to increase the use of fertilisers, and thus encourage the more intensive cultivation of the soil. At the same time considerable sums were allotted by the Reich in the form of medium-term credits to facilitate the purchase of fertilisers, agricultural machinery, etc.

Thirdly, a very thorough and widespread campaign was started throughout the villages and farms of the countryside to raise the average standard of cultivation to the level of the best farmers. Vigorous pressure was brought to bear on those whose methods were backward, and in the case of " hereditary farms " peasants were sometimes dispossessed of their holdings and the farm entrusted to the next heir if they continued to farm badly. Special attention was further devoted to the avoidance of waste through the rotting of foodstuffs, and by expert advice and with the aid

of subsidies the construction of silos was greatly extended.

Fourthly, by a suitable price policy the cultivation of potatoes and sugar beet was encouraged in place of more uncertain or less useful crops, such as beetroot and mangel-wurzels. The price of rye also was raised.

Fifthly, owing to bad weather conditions the cereal harvest of 1936-37 had been a poor one, with the result that the carry-over of grain had fallen to a dangerously low level by July 1937. Accordingly drastic delivery obligations were imposed on all farmers and landowners in respect of all harvested bread-cereals, the only exceptions being the requirements for seed and for consumption on the farm. Heavy penalties were threatened in the event of non-fulfilment. Already at the end of November 1936 distillers had been forbidden to use wheat and rye for distilling purposes, and in July 1937 the feeding of bread-cereals to animals was prohibited.¹ In previous years as much as 2 to 2½ million tons of rye had been used as animal fodder as compared with about 5 million tons for human consumption, while in the case of wheat between 400,000 and 600,000 tons had been used for fodder as compared with an average yearly demand for human consumption of 5 million tons. It was sought to make good the deficit in fodder for the livestock farmers by increasing the import of maize and barley (cheaper products than wheat to import), by using part of the abundant potato crop for forage purposes, and by extending the acreage under clover, lucerne and meadow hay. Nevertheless

¹ As a result of these measures the visible stocks of bread-cereals rose from 1,800,000 tons in May 1937 to 3,000,000 tons in May 1938, while fodder grains (oats and barley) increased by 400,000 tons.

there was a considerable decline in the number especially of young and breeding pigs which augured a shortage of bacon and pork in the winter of 1938-39. The supply of cattle was less affected by the fodder shortage and it was possible to maintain and even increase their numbers, but an unfavourable factor was the outbreak of foot-and-mouth disease in the latter part of 1937. In the middle of June 1938, 67,367 farms were affected by the disease, or about 2 per cent. of the total number of farms in Germany (but a much higher percentage of the livestock farms), and the disease then showed no signs of abating.

The reduction in the number of pigs was serious from the point of view of the supply of fats, the most critical part of the whole German food problem. The butter shortage in Germany, to which so much attention has been paid in the Press in recent years, has not been due to a decrease in the production of butter — on the contrary domestic supplies of butter increased from 452,000 tons in 1935, to 496,000 tons in 1936 and 521,000 tons in 1937. The figures for imports of butter were 71,000 tons in 1935, 75,000 tons in 1936 and 87,000 tons in 1937. It would, of course, have been possible to remedy the shortage by increasing imports still further, but this would have been at the expense of other imports of other foodstuffs or raw materials which were adjudged more important. Figures given elsewhere¹ show that the average consumption of butter per head in the last boom year (1929) was 8.0 kg., as compared with 8.9 kg. in 1937. Meat as a whole was 44.9 kg. in 1929 as against 45.9 kg. in 1937. On the other hand the consumption of lard fell from 8.2 kg. to 8.1 kg., and of margarine from

¹ Cf. p. 207.

7·0 kg. to 5·4 kg. The decline in the consumption of margarine was due initially to restrictive measures imposed in 1933 in the interest of the home producers of butter, which were maintained later owing to the shortage of foreign exchange. That the consumption of margarine was as high as 5·4 kg. in 1937 was the result mainly of the expansion of the German whaling fleet.

It is impossible to say how much success the new measures under the Second Four-Year Plan are likely to meet with, but the difficulties are certainly formidable. So long as industrial activity remains as high as in the first half of 1938 there can be no question of getting more labour on to the land ; the most that can be hoped for is to check the rate of migration off it. Moreover, diminishing returns were setting in in many branches of agriculture in the second half of 1937, while most costs were rising, especially wages, building costs, repairs to machinery, etc. The prohibition of the fodder use of bread-cereals also was a severe blow to the most profitable side of agriculture — animal husbandry — though this is not necessarily a permanent measure.

The general trend of agricultural production in recent years can be seen from the tables on pp. 142 and 143.

It must be borne in mind in considering cereal yields that 1933 was an exceptionally good harvest year for cereals, while—owing to weather conditions—the harvests since then were average or inferior until the 1938 harvest. The acreage under wheat has also been reduced appreciably since 1932, owing to the withdrawal of marginal land which was more suitable for other crops.

TABLE XXII
GERMAN CROP YIELDS ¹

	In Thousand Metric Tons					
	1933	1934	1935	1936	1937	1938 *
Wheat (including spelt) . . .	5,765	4,676	4,790	4,523	4,570	5,500
Rye . . .	8,727	7,608	7,478	7,386	6,920	8,460
Total bread-cereals	14,492	12,284	12,268	11,909	11,490	13,960
Forage cereals (oats, barley, etc.) . . .	11,136	9,332	9,719	9,956	10,710	11,700
Potatoes . . .	44,071	46,781	41,016	46,324	55,310	50,310
Beet . . .	8,579	10,394	10,568	12,096	15,700	14,970
Turnips . . .	30,717	33,805	34,711	37,826	40,540	35,320
Clover, lucerne . . .	10,599	8,698	9,514	12,362	10,710	11,070
Meadow grass . . .	22,237	17,726	23,667	27,818	26,770	25,360

* Provisional figures.

TABLE XXIII
GERMAN LIVESTOCK FIGURES ²

December 31st figures

	In Thousands			
	1913	1935	1936	1937
Cattle : total . . .	18,474	18,938	20,088	20,469
Dairy cattle . . .	9,973	10,067	10,247	10,324
Horses . . .	3,807	3,390	3,410	3,430
Pigs . . .	22,533	22,827	25,892	23,805
Sheep . . .	4,988	3,928	4,341	4,684
Goats . . .	3,164	2,501	2,634	2,618
Poultry . . .	63,970	86,084	88,423	85,498

¹ Report of Reichskreditgesellschaft for 1937-38, p. 25, and *Wirtschaft und Statistik*, 1938, Nos. 18 and 20.

² Report of Reichskreditgesellschaft for the first half of 1938, p. 31.

TABLE XXIV
LAND UTILISATION ¹

In Thousand Hectares (1 hectare = 2·47 acres)							
	1932	1933	1934	1935	1936	1937	1938
Total area under cultivation . . .	29,370	29,365	29,348	28,752	28,747	28,742	..
Acreage under :							
Winter rye . . .	4,383	4,459	4,424	4,487	4,457	4,096	4,204
Summer rye . . .	67	65	67	67	57	60	59
Winter wheat . . .	1,976	2,028	1,889	1,924	1,925	1,754	1,847
Summer wheat and spelt . . .	419	403	412	263	228	286	247
Winter barley . . .	246	271	306	388	436	439	517
Summer barley . . .	1,322	1,315	1,324	1,219	1,200	1,275	1,156
Oats . . .	3,285	3,182	3,146	2,798	2,778	2,845	2,697
Mash cereals . . .	366	372	393	522	518	595	591
Early potatoes . . .	253	245	237	132	134	130	135
Winter potatoes . . .	2,626	2,644	2,670	2,638	2,658	2,758	2,758
Beet . . .	276	311	368	388	400	455	502
Turnips . . .	821	832	852	861	853	855	815
Woods and forests . . .	12,766	12,780	12,790	12,948	12,918	12,914	12,939
Buildings and yards . . .	646	653	662	791	809	830	922
Roads and railways . . .	..	..	..	..	1,481	1,488	1,503
Cemeteries, parks, playing fields, etc. . .	..	..	..	..	287	328	407

The German Statistical Office has estimated that, after allowing for imported feeding stuffs, Germany's domestic production of food, measured in terms of calories, was 82 per cent. of her total requirements in 1936, as compared with 80 per cent. for the average of the years 1909 and 1913.

AGRARIAN REFORM

Down to the present time National Socialist policy in regard to land tenure and ownership, with the big exception of the Hereditary Farms Law, has been characterised by a conservation caution. The Government has contented itself with continuing and at first expanding, though not on a very great scale, the settlement of new farms and rural communities on

¹ Figures supplied by the Reichskreditgesellschaft.

the basis of the Reich Settlement Law of 1919. Under this Law the State had been empowered to purchase land on which to settle new colonies of peasant proprietors. Between 1919 and 1932 the average annual acquisition of land for settlement was about 160,000 acres, the bulk of which came from the break-up of large estates in eastern Germany. But there was no compulsory acquisition, and most of the land was bought (over 70 per cent. in 1936) in the open market ; while the remainder came from owners who handed over land for settlement, and from bankrupt estates on which the mortgagees had foreclosed to recover their loans. Under the Hitler Government the purchase of land for this purpose rose to 364,000 acres in 1934, but diminished somewhat in 1935 and 1936, and was as low as 160,000 acres in 1937. Various factors contributed to this : the greater prosperity of agriculture diminished the number of estates that were broken up ; the rise in the value of land (397 RM. per acre in 1929, 256 RM. in 1932 and 396 RM. in 1936) made purchase more costly ; and land was needed for other more urgent purposes. In 1937 there were only 1,785 new peasant farms established with an area of 73,000 acres, or about half the corresponding figures for 1936, although the settlement companies in 1937 had nearly 250,000 acres of land in their possession. One of the principal difficulties has been the rise in building costs — a peasant farm with stabling and barns which had cost 10,000 RM. to construct in 1934, cost 16,000 to 19,000 RM. in 1937.

In the summer of 1938, however, the Government, looking forward to a time when the pressure of public construction was likely to be less, passed a law

abolishing all entails on property in Germany (except the peasant farms under the Hereditary Farms Law) as from January 1, 1939. At the beginning of 1938 there were 686 entailed estates with an area of nearly 2,200,000 acres, representing about half the agricultural land in holdings above 475 acres in size. It is expected that a great deal more land will in future become available for peasant settlements, since many of these estates are likely to come into the market as soon as the entail restrictions are removed. The passing of this measure constitutes a victory for that part of National Socialist opinion which is opposed to the big landed interests, and which wishes to replace the large estates by smaller units.

HOUSING

The period from 1924 to 1930 had been one of intense housing activity,¹ but owing to high building costs and interest rates of from 7 to 9 per cent. it was mainly financed by public funds, and even so the bulk of the houses were rented too high for working-class families. In the slump year, 1932, there was the anomalous position of 150,000 empty dwellings side by side with a great shortage of working-class housing — there were then over one million households which had not a separate dwelling to themselves. The new régime encouraged house-building on a considerable scale with the aid of partial subsidies and a good deal of direct construction. Nevertheless the housing shortage continued to grow owing to the increase in the number of marriages and the growth of the

¹ In 1928–30 fully 300,000 dwellings (mostly flats, not separate houses) were completed each year.

population. The development in this respect can be seen in Table XXV :

TABLE XXV
INCREASE OF DWELLINGS IN RELATION TO INCREASE
OF HOUSEHOLDS ¹

	In Thousands		
	Anticipated Net Increase of Households (1)	Actual Net Increase of Households (2)	Net Increase of Dwellings (3)
1932	..	..	141
1933	298	330	178
1934	302	480	284
1935	246	400	241
1936	209	290	310
1937	..	300	320

The figures in column 1 are taken from estimates of the German Statistical Office in 1930. The great increase in the figures of column 2 in the years 1934 and 1935 reflects the reaction upon the number of marriages, of the marriage loans and the industrial revival. It will be seen that it was not until 1936 that the net increase in dwellings had caught up with the increase of households, and by then the accumulated shortage had risen to over one and a half million dwellings. In 1936 42·4 per cent. and in 1937 46 per cent. of the newly constructed dwellings were small dwellings appropriate for working-class families.

Apart from reasons which are referred to elsewhere — the shortage of building labour and materials and the desire to have an employment reserve ² — there have been other motives which urged caution in the

¹ E. von Stuckrad, "Das deutsche Siedlungs- und Wohnungswesen," in *Jahrbuch der Nationalsozialistischen Wirtschaft*, 1937, p. 121.

² See p. 256.

construction of new houses. In the first place, the future localisation of the industrial population may be considerably different from the present;¹ and secondly, owing to the falling birth rate down to 1933 there will be a progressive fall in the rate of net increase of new households for many years to come. It is officially estimated that this net increase will fall as follows to :

A yearly average of 180,000 in the years 1937-40					
„	„	79,000	„	„	1941-44
„	„	71,000	„	„	1945-49
„	„	49,000	„	„	1950-54
„	„	26,000	„	„	1955-59

It is not until 1960 that the effects of the apparent reversal of population trends in Germany since 1933 will become evident in a rise in the net increase of households. As the normal life of a house may be put at some forty to seventy years, it is clear that there are important problems of planning to be solved, before an attack on a large scale can be made on the present German housing shortage.

It may be added that since the latter part of 1937 the rise of building costs, owing mainly to wage increases, has been a serious factor in the housing situation. How large this rise has been can be judged from the following extract from an article in *Die Deutsche Volkswirtschaft* for January 1938, which relates to building conditions in the Ruhr district, where, as the writer points out, the rise in costs has been less marked than in central Germany : “ There are quite a number of extensive settlements of small houses in which the building costs for precisely similar houses vary, according to the date of completion, from

¹ See pp. 230-2.

3,500 to 4,000 RM. (including the value of the occupier's own work) in the sections first completed, to 6,400 RM. in the last sections. One comes across buildings in which the rent for a dwelling is 19 RM. per month, and others, with the same size rooms and accommodation, where the tenant must pay 35 RM. a month. The increase in building costs overshadows all other problems in the building of working-class homesteads."

FOREIGN TRADE

Germany's imports rose from 4.2 milliard RM. in 1936 to 5.5 milliard RM. in 1937, and her exports from 4.8 milliard RM. to 5.9 milliards. Her excess of exports over imports, which was 550 million RM. in 1936, was 443 million RM. in 1937. In this expansion of imports and exports Germany was sharing in the general revival of international trade, the value of which (according to the figures for seventy-five countries) was 26 per cent. higher during the first nine months of 1937 than during the first nine months of 1936. Expressed in volume, international trade during 1937 had returned to the high level of the boom year 1929. It is a remarkable fact that, in spite of full employment and the tremendous pressure of the home market upon Germany's productive capacity, she was able to expand her exports in finished goods (in values) between 1936 and 1937 by 23.3 per cent. The corresponding increase in the case of Great Britain, which was also verging on a condition of full employment in her manufacturing industries, was only 19.3 per cent. On the other hand, the United States increased her exports of finished goods by 40.6 per cent., and Belgium and Czechoslovakia by 36.8 per

cent. and 28 per cent. respectively. The terms of trade continued to be unfavourable, as the prices of German imports rose by 10·2 per cent. while the prices of her exports rose only by 3·6 per cent.

The growth of world trade in 1937 had been fostered by the internal expansion of the different countries and by the resulting rise in raw-material prices. In the early summer of 1937 there was a break in the economic revival of the United States which led to a fall in raw-material values in world markets, and to a gradually widening trade recession which affected industrial activity as a whole in all countries except Germany, Italy and Japan, whose economies were on an actual or virtual war-time basis. The momentum of past orders kept the volume of international trade at a high level throughout 1937, but there was a big falling-off during the first half of 1938. The value of Germany's total exports during the first quarter of 1938 was 17 per cent. lower than in the last quarter of 1937, while the value of her imports declined only by 7 per cent. For the first time therefore since 1934 the balance of trade became unfavourable. It is interesting to note that for the same period British imports declined by 15 per cent., but her exports by not more than 11 per cent. Thus German exports diminished more rapidly than British exports. The explanation is probably to be found partly in the ever-increasing intensity of employment and activity in the German domestic market; while the recession inside Great Britain caused more attention to be paid to the export markets and price cuts may have been more willingly accepted. It is also relevant that Germany's exports consist almost wholly of finished goods, of which production goods form a

very high proportion ; hence she is more likely to be hit by a down-swing of the trade cycle than is the case with the more varied exports of Great Britain.

It has been pointed out above¹ that since the adoption of the New Plan in 1934 the whole course of German foreign trade has been altered, so that trade was systematically restricted with those countries (most notably the United States) which were unwilling to buy from Germany to as large an extent as they wanted to sell to her, and extended with those countries which were willing to enter into reciprocal trading agreements. Thus Germany's imports from and exports to South America (Argentina, Brazil, Chile and Colombia) increased from 329 million RM. in 1934 to 1,021 million RM. in 1937, an increase which represented 24 per cent. of the total expansion of her foreign trade between the two dates. A somewhat similar growth took place in her trade with the adjacent countries of south-eastern and northern and north-eastern Europe.

The Germans claim that their new system of reciprocal trading, combined with the maintenance of full employment at home, has exercised a stabilising influence during the recent recession on the trade of the countries with which they have established these relations. Thus in the case of Rumania her total exports were down by 22 per cent. in the first three months of 1938 as compared with the first three months of 1937 ; but whereas exports to Germany fell by only 20 per cent., exports to Great Britain fell by 64·5 per cent. and to France by 42·6 per cent. Hence she was forced to reduce her imports from these latter countries by a large amount, while she was able to

¹ See p. 99.

maintain her trade with Germany on a relatively high level. Again, the benefit to farming interests in these countries is illustrated by the fact that internal prices in Bulgaria in 1934, just before the Trade Treaty with Germany, were 106 dinars for wheat and 72 dinars for maize ; but in June 1938 the corresponding prices were 228 dinars for wheat and 115 dinars for maize, and cotton prices had also risen. The fact that Germany's imports are almost wholly foodstuffs and raw materials has strengthened her trading position, especially in relation to the countries of south-eastern Europe, whose great problem is how to find a market for their agricultural products. At the same time this type of direct *quid pro quo* trading may have highly inconvenient political as well as economic consequences for the smaller and weaker countries, and Germany is not likely to forgo the use of such a bargaining weapon if it is at her disposal. Once she is able to reach the position of a monopoly buyer in relation to these small countries, it is evident that they will be very much at her mercy when it comes to the renewal of contracts, which at the moment may appear quite favourable to them.

In Chapter II¹ reference was made to private compensation agreements in foreign trade. It had been intended originally that trade carried on in this way should be supplementary to ordinary trade, but in practice it was found in 1935 and 1936 that large quantities of German goods which had previously been exported against foreign exchange were now moving through compensation channels, with the result that the volume of free foreign exchange available for the Government was diminished while the

¹ See pp. 68-70.

prices of many imports were raised unnecessarily. Hence after 1935-36 the extent of private compensation trade was greatly restricted and "to-day compensation agreements are only permitted when they are beyond question supplementary to ordinary trade, *i.e.* when they really increase the market for German goods over and above the normal possibilities of trade, and thereby bring in raw materials".¹ In the case of a number of articles, for which Germany has a virtual monopoly, *e.g.* fine chemicals and special machines, compensation trade is prohibited, and it is completely forbidden in relation to a number of countries. Where it is still allowed, a ratio of 1 : 3 is normally required, *i.e.* the German exporter must sell 60 marks' worth of goods against foreign exchange (*Devisen*) for every 30 marks' worth that he sells under a compensation agreement. It is only in the case of certain raw materials which are of vital importance that a ratio of 1 : 1 is permitted. In general, all compensation transactions with a lower value than 50,000 RM. have been forbidden since November 1936. By the spring of 1938 private compensation trading agreements had become quite exceptional and only a very small proportion of Germany's foreign trade was conducted in this way. On the other hand an important amount of foreign trade is still being carried out with the aid of Aski marks, especially with Central and South America and with British West and East Africa and Australia. In 1937 approximately 20 per cent. of the German import trade was conducted by means of Aski marks. In the same year about 50 per cent. of all German foreign trade was regulated by clearing agreements and 15 per cent. by payment agreements

¹ R. Eicke, *Warum Aussenhandel?* (2nd ed.) p. 51.

(*Zahlungsabkommen*). Early in 1938 it was estimated that only 20 per cent. of the value of all German exports was available to the Reichsbank in the form of free foreign exchange (*Devisen*); the remaining 80 per cent. was set off directly against imports, interest payments, debt repayments, etc., under clearing, payment and compensation arrangements.¹

Throughout this book no account has been taken of the incorporation of Austria into Germany in March 1938, but the position of Greater Germany as a trading factor in South-eastern Europe is a matter of such great importance that it may be held to justify the inclusion of the following table :

TABLE XXVI

GERMAN AND AUSTRIAN TRADE WITH SOUTH-EAST EUROPE ²

	Share in % (based on 1937 Figures)					
	Share in Total Exports from Countries concerned			Share in Total Imports into Countries concerned		
	Former Reich	Austria	Greater Germany	Former Reich	Austria	Greater Germany
Hungary .	24.1	16.9	41.0	26.2	18.0	44.2
Jugoslavia .	21.7	13.5	35.2	32.4	10.3	42.7
Rumania .	20.0	6.9	26.9	28.7	9.3	38.0
Bulgaria .	43.1	4.0	47.1	54.8	3.4	58.2
Greece .	30.5	1.7	32.2	27.1	2.5	29.6

¹ The above estimates of the proportion of Germany's foreign trade carried out under the different trading arrangements are taken from the authoritative book by Dr. R. Eicke, *Warum Aussenhandel?* ch. viii.

² Report of the Reichskreditgesellschaft for the first half of 1938, p. 85.

CHAPTER IV

PRICES, WAGES, LABOUR POLICY AND THE STANDARD OF LIVING

FROM the outset of the National Socialist régime it has been a cardinal feature of its economic policy to keep the price level as a whole as stable as possible. Given that the external value of the mark was to be upheld in the face of the devaluation of the English and many other currencies, it was essential that prices should not be allowed to rise. An inflationary movement of prices also would threaten the success of the work creation programmes. It was further realised that a necessary condition of stable prices was stable wages, and this carried with it the corollary that, as far as possible, individual prices should not be allowed to rise. For if the prices of any important elements in the cost of living, *i.e.* of wage-goods, were to rise, the pressure from labour for wage increases must eventually become irresistible, and the whole policy would be endangered.

AGRICULTURAL PRICES

There was, however, one important group of commodities the prices of which had fallen disproportionately low in the slump of 1930–32, and which could not remain at that level if other prices and wages were stabilised at the relative level they had then reached.¹

¹ See p. 19.

The previous policy of agrarian protection had benefited cereals, above all wheat, at the expense of animal products. Thus between 1929 and 1933 the wholesale prices of all agricultural products fell by 33 per cent., but the prices of vegetable foods fell only 21·8 per cent., and of fodder 33·3 per cent., while in the case of slaughter animals the fall was 50 per cent.

In 1933 there was a very good cereal harvest and the Government was faced with the prospect of a further heavy fall in the price of cereals which would have been disastrous for the farmers. It accordingly fixed minimum prices for wheat and rye for 1933-34 slightly below the 1932-33 figures, but still at a profitable figure, having regard to simultaneous reductions in cost and to the much larger volume of sales. Millers were compelled to buy and store for their own account a quantity of home-grown rye or wheat of the 1933 crop equal to 150 per cent. (later 200 per cent.) of the amount of home and foreign rye or wheat milled by them for the monthly average of the year 1932-33, and the Government also purchased and stored a part of the crop. In this way the surplus of the crop was prevented from depressing prices. In 1934-35 there was a poor cereal harvest and the accumulated stocks had to be drawn upon, while the prices of cereals were raised to compensate the farmer in part for the smaller volume of produce sold. In the case of animals and animal products, there was a much larger proportional increase in prices in 1933-35 than for cereals, in order to restore the balance of farming; but here the rise was brought about mainly by the restriction of imports and by higher customs duties.

Under the pressure of a series of medium harvests and a continually increasing demand, the farm prices of cereals had to be raised further after 1935, but other prices were kept practically constant, or lowered, as can be seen from Table XXVII :

TABLE XXVII
FARM SELLING PRICES ¹
(October 1909-13 = 100)

	October —			
	1932	1935	1936	1937
Cereals	96	101	104	109
Eating potatoes	67	111	108	108
Fat stock, total	68	95	92	92
Cattle	55	97	92	92
Calves	75	112	106	99
Pigs	75	90	89	91
Butter	84	96	96	96
Eggs	128	128	128	131
Grand total	78	100	99	100

A large part in the control of prices has been paid by the Monopoly Boards referred to in Chapter II.² The Boards do not import on their own account most of the foreign supplies required, but a permit from them is necessary before any imported food is sold inside Germany, and they import directly if they judge that private trade is not securing sufficient supplies. Where the price of foreign food, after paying the import duty, is below the internal price, the importer is forced to hand over to the Board, in exchange for his permit, the difference between the c.i.f. price of foreign food landed in Germany plus the

¹ Report of the Reichskreditgesellschaft for 1937-38, p. 29.

² See above, pp. 58-9.

duty and the internal price ruling there, as well as a fee charged by the Board. In this way, through the varying import quotas corresponding to internal production and requirements for consumption, the domestic market has been divorced from the fluctuations and prices of the world market, while the excess of the internal over the world price has been used to subsidise the prices of such imports (quantitatively not large in relation to total imports) as are bought at more than the internal prices in marks.

It is often argued by foreign critics that the willingness of Germany to buy foreign foodstuffs, *e.g.* from South-eastern European countries at prices from 20 to 40 per cent. above the level of world market prices, is a piece of "economic insanity" which can only be explained, if at all, by purely political motives, and which must be extremely detrimental to the welfare of the country as a whole.¹ But it must be borne in mind that the domestic prices, at wholesale, of agricultural products in Germany are (and have been

¹ Cf. the following speech in the House of Commons on November 30, 1938, by Mr. Hudson, Secretary of the Overseas Trade Dept. (*The Times*, December 1, 1938):

"At a particular date this year the Germans were paying over £10 a ton for wheat at a time when Manitoba Wheat No. 1 was selling at £7 a ton on the London market. They were buying barley at £7 : 10s., when the London price was £5 : 6s.; and they were buying eggs at £7 : 12s. a metric quintal when in London the price was £5 : 18s. They had done the same thing with large quantities of wool, cotton, hides, meat, poultry, oil-seeds and cereals at prices so high that it did not permit the producer in these countries to send these products to the world markets and obtain similar prices. Owing to German action the exports of mohair from Turkey to this country, which last year amounted to £190,000, this year decreased to £24,000 because of the increase in price. . . . The Germans had entered into an agreement by which Poland got a large quantity of machinery, in this case at competitive prices, and Germany had contracted to buy over a period of nine years agricultural produce from Poland at well over world prices. Poland obtained her goods on credit and paid a low rate of interest. By these methods Germany was obtaining an economic stranglehold on these various countries at the cost of her own people, raising the cost of living of her own people, and exporting her goods at less than cost price."

ever since 1931-32) much above the world level of prices. Thus the average producer price of German wheat in 1937 was 205 marks per ton (£16 : 10s. per ton at the average nominal exchange rate of 12·30 marks = £1), while the average price of Manitoba wheat No. 1 in London for that year was £11 : 18s. (for the average of 1936 the London price was only £8 : 8s. per ton). In general, where Germany can dispose of free exchange, she buys at world prices, but where she buys under the "compensation" system¹ she usually offers considerably higher prices. Provided that these latter prices, cum duty, do not exceed her internal selling prices for the same products, she is merely adjusting her foreign buying price to the actual purchasing power parity of the currency, and Mr. Hudson's remark that "she is raising the cost of living to her own people" is not justified. In foreign trade it is goods which pay for goods, and the real cost to a country of her imports is the exports which she exchanges against her imports, not the monetary units in terms of which the exchanges are arranged. It may be contended that Germany could only gain by buying her food and raw materials always at not more than world prices ; but even apart from political motives, the prices and volume of her imports are related to the prices and acceptability of her exports. If she is bargaining directly with a foreign country and can arrange a deal at a price which is above world price for what she imports, but at the competitive price for her exports,² she may still be better off on balance than she would be, either if the deal did

¹ See above, pp. 68-70.

² In practice, in large compensation transactions, Germany is often able to secure a price for her exports which is well above the ordinary competitive price.

not come off at all, or than if she were to buy at the world price and, in order to finance the purchase, had to sell in markets where it was necessary for her to subsidise her exports very heavily in the face of an inelastic demand. It is obvious, of course, that political considerations do enter vitally into the picture, but a thorough investigation would in all probability show that, purely from the economic standpoint, there is much more "method" in the German "madness" than her critics generally give her credit for.¹

Returning to the monopoly Food Boards, it is important to note that their activities are not confined to imported products, but also extend to domestically produced foodstuffs in the sense that these must be offered to the Boards at the prices fixed by the latter, although they are not under obligation to accept delivery. Here also a fee must be paid to the Board for a permit to sell goods in the market, and in the case of milk the proceeds of the fee are used as a subvention to the dairies to enable them to maintain (not to raise) the price of butter. The Boards are thus in a position to purchase and store surpluses of any food, and so to adjust supplies to demand, and to regulate the flow from the producer to the consumer, without the continual fluctuations in prices which take place in a free market. It is their business to see that local or temporary shortages of food are ironed out by drawing upon accumulated stocks. In the case of some agricultural products, *e.g.* wheat, rye and sugar, production quotas, representing amounts

¹ To avoid possible misunderstanding it may be well to point out that the above account is intended as an explanation and not as a defence of German price policy in this field.

which must be delivered to the Boards on the basis of the acreage under these crops, are fixed by the Food Ministry. On the other hand, for live stock slaughtering quotas are fixed which are varied according to the necessities of the situation ; thus in 1936 when shortage of fodder increased the number of pigs brought to market, and when it was desired to build up the herds of cattle, there was a reduction in the slaughtering quota for cattle and a sharp decrease in the price of fat cattle. At the same time it was sought to reduce the number of pigs in view of the shortage of fodder. Hence farmers were informed in the autumn of 1936 that the premium on pigs weighing above 120 kg. (estimated to be the optimum weight from the point of view of the utilisation of fodder) would be lowered as from January 1, 1937. The result was a large increase in the marketing of fat stock, and considerable quantities of pig-meat were able to be put away into cold storage. A year later, when the second potato harvest of 1937 had remedied the shortage of fodder, the price bonus on fat stock was restored in order to increase the average weight of pork and bacon pigs, and so the fat yield.

In general, then, the system is one of stable producer prices¹ which are only altered within narrow margins in accordance with changes in conditions of supply, and then always with due regard to the desired effects on output and to the profitability of farming as a whole. The farmer, with rare exceptions,

¹ There is not, however, a uniform price all over Germany for the same product. In the case of cereals Germany is divided into districts and there is a difference of as much as 20 RM. per ton of wheat between the lowest and the highest price districts. There are also variations in the price of the same product at different times of the year ; thus the producer price of cereals rises steadily throughout the year to cover the cost of storage.

is not told what crop he *must* grow, though he may, as in the exceptional case of hops (cf. the Hop Marketing Board in England), be subject to stringent quota restrictions on his acreage under a given crop. But taking farming as a whole, the production of food and other agricultural products is mainly regulated through the careful fixing of relative prices in such a manner as to encourage the output of those products which are regarded as being of the greatest importance.

While the Boards, under the direction of the Ministry of Agriculture, control producer prices, every subsequent stage down to the final consumer is subject to the vertically and horizontally organised marketing associations, which, besides enforcing grading and marking in accordance with standards of quality, also fix profit margins for the wholesaler, manufacturer, retailer, etc., and exercise a very complete control over distribution. The effectiveness of this control can be judged by the fact that, from 1932 to 1937, farm selling prices rose by 30 per cent., while the food index in the cost of living index number rose by only 5·6 per cent. Even after making a liberal allowance for price or quality changes not reflected in the cost of living figure, the disparity between the two rates of increase is remarkably large.

Down to the latter part of 1934 the main problem confronting the Food Estate was to raise or maintain prices at a profitable level to the farmer. From then onwards the position altered radically. As has been mentioned above, the two good cereal harvests of 1932 and 1933 were followed by three medium ones in 1934 to 1937 ; and at the same time both the growth of the national income and the necessity for restricting imports owing to the shortage of foreign exchange,

exercised an upward pull on prices. The minimum prices of 1933-34, intended to protect the farmer, were replaced by fixed, guaranteed prices in the interests even more of consumers than of farmers. In the vital case of bread, prices have been kept unaltered since 1935 in the face of rising producer prices. This has been achieved by reducing profit margins for the wholesalers, millers and bakers. In 1935 the profit margin of the rye millers was reduced so much that it was necessary to place a levy of 6 RM. per ton on the wheat millers, who had a relatively favourable profit margin, for the benefit of the former. Later, in 1937, when it was desired to increase the production of rye as against wheat (the yield per acre on German soils of rye being greater than that of wheat), the producer price of rye was raised by 20 RM. per ton. In spite of this the consumer price of rye-meal and bread was kept unaltered, and the loss to the rye millers, who had to pay the new prices for the rye, but to sell the flour at its former price, was made good by a special levy upon two other food industries, brewing and sugar, where relatively large profits were being made.¹

To maintain the bread supply it was found necessary in 1936 to increase the percentage of extraction

¹ Some recent measures afford an interesting illustration of German agricultural price policy. In October 1938 the price of milk to the farmer selling to a dairy was raised by an average of 2 pfennigs per litre; the cost was met partly by raising the prices of milk and butter to the consumers in those parts of Germany where the price was below the average for Germany as a whole, partly by a subvention from the Reich, and partly by drawing upon profits of the margarine and seed-crushing industries, and by reducing the number of middlemen between producers and consumers. At the same time the producer prices of fat pigs were raised by 2 RM. and of slaughtering cattle by 1.50 RM. per 50 kg. live weight, the cost being met by a reduction of the profit margins of wholesalers, butchers, etc. The avowed motive was to improve the balance of profitability of farming, which had been in favour of the cereal as against the livestock farmer. Cf. the table on p. 156.

of cereals (at the expense of miller's offals and so of animal feeding stuffs), while in 1937 maize, and later potatoes, were ordered to be admixed with flour in making bread.

In the case of only one foodstuff, butter, has rationing been practised on a large scale and for long periods, and here there have been considerable variations in different parts of the country, the ration varying from half a pound a head per week in most areas to much larger quantities in certain districts. Some forms of meat also have been rationed at times, but the restrictions have been removed when the temporary scarcity was past.

Since the latter part of 1936 the Germans have used the steering of consumption (*Verbrauchslenkung*) as an important adjunct both to their food and price control policy. The forces of propaganda are used to instruct consumers as to those kinds of foodstuffs which they ought to buy and those of which they should consume less owing to the fact that they are scarce. In this way it is possible to absorb surpluses or to relieve shortages of other foodstuffs. The public is advised to decrease its consumption of butter and other fats and use more jam, the consumption of which in fact rose from 55,600 tons in 1933-34 to 138,500 tons in 1936-37.¹ It is known that there will be a shortage of pork in the winter of 1938-39 owing to the large numbers of pigs slaughtered in 1937. Consumers' attention, therefore, is directed to the

¹ The German authorities evidently agree with the advice of the Dairy-maid to the Queen in "The King's Breakfast":

" But Marmalade is tasty, if
It's very
Thickly
Spread."

(*When We Were Very Young*, by A. A. Milne)

desirability of eating more beef, mutton and veal in place of pork. Similarly, in 1937 there was a bumper crop of potatoes, but a poor wheat harvest, and so an intensive campaign was started to show the consumers all the various ways in which potatoes could be stored and utilised.

Propaganda takes the most varied forms, and is carried out above all by the Party through the medium of its associations and affiliated bodies, such as *National-Sozialistische Frauenschaft* and *Deutsches Frauenwerk*. Thus there are local shop display weeks, during which retail shops make special displays of foodstuffs of which there is a plentiful supply and the purchase of which is encouraged; these usually consist of fruit, fish, jam and other "sugar-holding goods". Various food uses for potatoes are also displayed. The columns of the Press are full of recipes and other advice to the same intent, and all the cookery schools of the Reich are brought into the task. Recently the rations of the Labour Service have been changed so as to include a larger proportion of potatoes and vegetables and a smaller proportion of meat and fats, and it is reported that experiments in this direction are being made in regard to Army rations. Fish days have been introduced in colleges, schools and other institutions. The outstanding fact about this steering of consumption is its practical success;¹ the German public seems to be remarkably susceptible to suggestion of this type, and provided that its appeal is not weakened by too frequent use, it constitutes an

¹ In 1936-37, when there was a glut of cabbages, consumption was so successfully steered in that direction that 2,500,000 metric cwts. of cabbages were marketed in October-November 1936 and 400,000 cwts. in April 1937 *in excess* of normal consumption. Similarly, an additional 20 million litres of wine was marketed in 1936. High marks must surely be awarded to a "steering" which can produce such results in the case of cabbages.

important additional method of control over the distribution of food supplies.¹ Properly handled it has all the advantages of rationing without the drawbacks, while it enables prices to be maintained at a stable level in the face of wide variations in supply.

Although there has been much grumbling on the part of the peasants and the farmers generally at the restriction of their prices and at the degree to which their productive policy has been controlled (cf. the delivery obligations imposed upon all harvested bread-cereals, and the prohibition in 1937 of the use of bread-cereals for forage purposes),² the fact remains that they have both a guaranteed market and guaranteed price, and that with good farming they have been sure of a moderate income.³ The lowering of the prices of artificial manures by 25 to 30 per cent. in 1937, and of agricultural machinery early in 1938, was intended partly to stimulate their use in the interest of productivity and partly to offset a rise of prices and costs in other directions. As the Statistical Office estimates that on the average 10 per cent. of the total farm expenses are incurred for manures, the reduction was a valuable one, and as a result the consumption of artificial manures expanded by fully 30 per cent. Compared with the period before 1933 also, the lowering of the rate of interest on agricultural indebtedness was an appreciable factor, although the total burden of debt is still so large that it has served as a valuable spur to the Government's effort to increase output.

¹ Cf. H. Backe, "Verbrauchslenkung," in *Der Vierjahresplan*, April 1937.

² Cf. p. 139 above.

³ By the beginning of 1938, however, the rise of agricultural wages and of building costs and the shortage of labour were seriously affecting the profitability of farming.

THE CONTROL OF INDUSTRIAL PRICES UNDER
THE FIRST FOUR-YEAR PLAN

The control of prices in recent times in Germany dates from the Emergency Decrees of 1931, when the prices of cartel products were lowered and a Commissioner for the Supervision of Prices was appointed to see that the price cuts were carried out and reached the consumer, and in general to supervise the prices of articles of prime necessity. The Price Commissioner was empowered to delegate his functions to Offices for the Supervision of Prices, and in detail these functions were carried out by the local police authorities, subject to the *Regierungspräsidenten* and similar officials. Under the Hitler Government the Price Commissioner was at first relieved of his post and his duties handed over to the Minister of Economics and Food. But in November 1934 he was reappointed and held office till July 1935, when his duties were again split up between the two Ministries just mentioned. Finally, in October 1936, ultimate responsibility for price control was once again centralised in the hands of a Commissioner for Price Formation.

The duty of the first Price Commissioner was to accelerate the process of deflation, but the second had the more difficult task of keeping down prices, which were threatening to rise alarmingly in 1934, as a result of the expansion of employment and the restriction of imports owing to Dr. Schacht's New Plan. The control was simplest in the case of cartel prices, as there was here a price-fixing machinery already in existence which could be directly influenced. Indeed in 1933 not a few compulsory cartels were established by the Government in order to lessen the extent of

price cutting by competing firms. By a series of decrees in 1934 all cartel price agreements and restrictions entered into since June 1933 had to be notified to the Price Commissioner, and all new and higher price determinations had to be submitted to him for his approval.¹ In a considerable number of cases cartel agreements for the fixing of prices were declared null and void. But this in turn sometimes led to a recurrence of cut-throat competition, and a decree was issued in December 1934 which was aimed at "unfair" competition. The latter was defined as: (1) "Selling prices which are out of all relation to costs and which are in conflict with the requirements of normally conducted business". (2) "Deliberate failure to fulfil liabilities to the State, the employees or the creditors, or the illegitimate use of credit". Thus, for example, on the one hand, any form of agreement or even consultation between firms tendering for public contracts was prohibited under drastic penalties; while, on the other hand, a firm tendering a very low price was liable to find itself the object of an investigation to see whether it was "carrying out its obligations to the State, the employees or the creditors".

Early in 1935 the growth of demand for the products of the investment industries had so much increased the extent to which their productive capacity was being utilised, and thereby lowered their average costs, that it was possible to obtain considerable reductions in the prices of potash, cement, plate glass, roofing felt, etc.

¹ The cartel census showed that over 1,600 new cartel agreements affecting prices had been made since June 1933. It was estimated in 1935 that 50 per cent. of all German industry was cartellised, and by the end of 1936 this had risen to 66 per cent.

For the whole period from 1934 to October 1936 it was found possible to control effectively the prices of that very important sector of industrial production which was organised in the form of cartels.

In the case of "free" prices, *i.e.* those not subject to cartel restrictions or to conditions of re-sale (branded goods), the prevention of price rises was a more difficult task. In some industries, *e.g.* the motor industry, the force of free competition was sufficient to lower prices or at least to keep them from rising. In perhaps the most difficult case, that of textiles, the reduction of raw-material imports led to a marked scarcity in 1934, and hoarding purchases by the public drove up prices until in December of that year the cost-of-living index for textiles had risen by 10.7 per cent. above the figure for December 1933.

Special legislation had to be passed in 1934 and 1935¹ which fixed maximum prices based on the prices of textile raw materials, yarns and fabrics from March 1 to March 21, 1934. Where the cost of imported materials had risen, higher prices might be charged, but only by the actual amount of the rise together with any consequential increases in costs, such as insurance premiums and discounts or rebates. Apart from such increases it was intended that gross profit margins (which in business are commonly reckoned as a percentage on costs) should be kept stable in absolute amount, but this intention was in fact often evaded. The formal prohibition of percentage additions to cost, where raw-material prices had risen, was made general under the Price Stop Decree of November 30, 1936.

It was further laid down in the textile decrees

¹ See above, pp. 71 and 91-2.

that, where a comparable price did not exist at the basic period, no higher price must be asked or accepted than would be necessary in order to cover actual costs together with a reasonable return on capital. The charging of replacement cost prices was expressly prohibited when prices were rising. Similar decrees were issued in respect of hides and leather, base metals and one or two other products.

In some industries the Price Commissioner laid down what were called *Richtpreise* ("normal" prices). Any firm charging more than the "normal" price could be called upon to show cause and to submit its books, etc., for inspection.¹ Increase in cost due to higher prices of imported raw materials were accepted as a legitimate reason for higher prices, but not rises in costs caused by the restriction of working hours. In the case of cotton goods in 1935 the "normal" prices were fixed below the ruling market prices and led for a time to a reduction of these prices.

In September 1934 a decree was issued forbidding prices to be charged for foreign goods traded in Germany which were higher than the ruling market prices abroad at the time of purchase, plus the customary trading margins. This did not apply to all foreign goods, but only to those which were listed in the Official Gazette. In this very important field the system did not work well. The different treatment of listed and unlisted articles proved unsatisfactory; it was often impossible to establish what was the ruling market price on the day of purchase; and the provision in the decree that traders might

¹ "If", said the Price Commissioner, in December 1934, "a firm is selling at half the 'normal' price, this is a case for investigation to see whether it is dumping, if at double the 'normal' price, then to see whether it is profiteering."

add the usual margins to the purchase price gave official sanction to the customary procedure of making percentage additions on cost.

Numerous other special regulations were made affecting individual trades, but of course the great majority of "free" prices were not so regulated and were merely subject to the general supervision of the Price Commissioner and the Price Supervision Offices. The knowledge that there was in existence a State machinery for the control of prices undoubtedly contributed to delay and moderate price rises, as traders were anxious to avoid being the object of special investigation, which might be followed by a burdensome and hampering enactment.

Wholesale prices in world markets as a whole moved little during 1935 and many important commodities such as maize, cotton, wool and oil were lower than in 1934. The German index for agricultural produce rose, it is true, from 100·9 in October 1934 to 104·2 in October 1935 (1913=100), and the index for manufactured consumption goods rose from 120·8 to 123·9; but that for production goods fell from 114·0 to 113·0, while raw materials whose prices were determined in world markets rose only from 70·4 to 71·9. The position seemed so satisfactory that the Office of Commissioner for the Supervision of Prices was abolished in July 1935, though the local Price Offices continued to function under the direction of the Ministry of Economics and the Food Estate.

In 1936, however, a marked change set in, and world raw-material prices began to rise fast, largely under the influence of expanding markets in the United States and Great Britain. German prices of

goods manufactured with foreign materials moved up in sympathy, and with the growth of employment and incomes there was a rise in "free" prices all along the line. The risks of interference were smaller and less deterrent when everybody around seemed to be putting up their prices. Between July and October 1936 the rise was becoming alarming.¹ The whole price structure of consumption goods and services, other than food, appeared to be on the move. Supplies of many things were short and purchasers were willing to offer higher prices or better conditions of payment if they could secure prompt delivery; marginal costs also were beginning to rise. Further, the disadvantages of the absence of a central authority over the mechanism of price control were becoming apparent. There were conflicts of jurisdiction and divergences of policy between different State authorities with all their vexatious consequences. Labour was growing very restive, and the German Labour Front was becoming insistent in pointing out the need for higher wages.

THE PRICE STOP DECREE OF NOVEMBER 1936

In September 1936 came the announcement of the Second Four-Year Plan with its intensification of investment and additional strain upon the country's resources. Simultaneously, as part of the Plan, Herr Hitler announced the establishment of a new

¹ What was alarming about the rise in prices was not their magnitude, for this was in fact very small (cf. the table on p. 182), but that they were so widespread and that any increase was bound to cause difficulties with labour and with the agricultural population. There were also rises in retail prices of commodities and services which do not appear in a wholesale price index number.

centralised price control in the shape of a Commissioner for Price Formation — the change of title is significant.¹

The new Commissioner was an important Party Leader, Herr Wagner ; he was given supreme control over all prices in Germany, subject only to General Goering, with much wider powers than those previously enjoyed by the Commissioner for the Supervision of Prices.

The underlying principles remained unchanged and were expressed as follows by General Goering in a speech on October 28, 1936 : “ If we demand from the worker fixed and steady wages, then the German worker is entitled to demand from us fixed and steady prices ”. There was also the further factor that German wholesale prices at the nominal rate of exchange were still much above world prices and it was an important part of policy to maintain and — if possible — increase the competing power of the export industries.

Faced with the tremendous new burden upon the whole economy which must result from the carrying out of the Second Four-Year Plan, Herr Wagner decided upon a very drastic measure. On November 26, 1936, he issued the famous Price Stop Decree which prohibited all price increases above the level of October 17, 1936,² except with his consent. A remarkable feature of this decree was its comprehensiveness ; except for wages and the capital and money markets, it applied to every price, from club subscriptions and insurance contributions to the hire

¹ His predecessor was Commissioner for the Supervision of Prices.

² The only exception to this date was in the case of textile materials and fabrics, in respect of which the basic date was November 30, 1936.

of shooting rights or the fares of municipal trams. It was made a punishable offence to offer, as well as to ask, a higher price.

The following description gives some conception of the way in which the Price Stop Decree has been interpreted. If any business was transacted between two parties on October 17, then all similar business in future must be transacted at not more than the same price. If no business was transacted between the two parties the prices must be that at which goods of the same quality were sold to other parties. If that type of transaction was not carried out at all on October 17, the price must be that which would have been charged on that day, which could often be judged by prices charged shortly before October 17. All rebates or discounts granted on the basic date must be continued, and any deterioration of quality is regarded as an evasion of the decree. Similarly no charges for delivery, or alteration in terms of payment may be made which were not in operation on October 17. In the case of completely new products the basic price is that which ruled on October 17 for products which were similar or which were produced at comparable cost. In the case of articles of fashion or season the price must be that which was charged in the preceding season for similar goods. A curious instance, which occurred more than once, was where a member of a cartel had been selling at a lower price than that fixed by the cartel. He was not allowed to raise this price except with the permission of the Price Commissioner, which was only given if the latter was satisfied that this undercutting was on balance disadvantageous to the stability of the industry. In a case which was tried in July 1937, where a member

was sued by a cartel for unfair competition, this permission was in fact refused.

In considering the working of this remarkable attempt to put the whole pricing system into a strait-jacket, it must be borne in mind that it contained three official elements of elasticity. Firstly, a provision was issued soon after the passing of the decree to the effect that prices which had been lowered after October 17 might be put up again without the permission of the Price Commissioner, provided they were not raised above their level on October 17. Secondly, there was the power of the Commissioner to grant price increases by way of exception to the general rule. Thirdly, he had the power to lower any prices by decree.

The Price Commissioner was immediately inundated with requests for exceptional permits to raise prices above the datum level. He himself was no economist by training (he had been originally an elementary schoolmaster), but he had a good staff and he had been chosen for his capacity to say no, and because he had sound common sense. He resisted the pressure of the large industrialists, but he had as one of his principles that an exception might be made when a firm could show that its continuous existence would be endangered unless it could raise its price. Even this principle did not apply where the firm was obviously inefficient, or, for instance, where its higher costs were due to the fact that it had raised wages and so attracted to itself labour from other firms.

The textile industries had always presented a difficult problem of price control, owing to their dependence on world raw materials and owing to the new domestic materials which were coming increasingly into use.

The Textile Materials Law of December 6, 1935,¹ had already established a special Price Stop for all textiles, based on the first three weeks of March 1934. Since then prices had in fact moved steadily upwards, but only by the amount by which raw material prices had actually risen. When the Price Stop Decree of November 1936 was issued, the prices of textile products were not stabilised at their level of October 17, 1936, but the basis reached on November 30, 1936, was adopted. By March 1937 it was found that the prices of certain raw materials such as wool and cotton had fallen below the level of March 1934, while there had also been reductions in the price of staple fibre. Accordingly an order (*Runderlass*) was promulgated in March 1937, by which all textile firms were allowed (without special permission), on the one hand, to raise their prices above the level of November 30, 1936, by the actual amount of any increase which had taken place since then in the price of the raw materials or semi-manufactured products; while on the other hand, they were required to *lower* their selling prices below the basic level by the amount of any decrease in the prices of raw materials or semi-manufactured products. It was further laid down that in no circumstances must the selling price be higher than sufficient to cover the necessary costs of production including a reasonable (*angemessen*) allowance for depreciation and a reasonable profit.²

Another main category of applications had also to be regulated by a special Decree passed in July 1937. The prices of foreign imports³ might be raised by the actual amount of their price as paid to the foreign

¹ See above, p. 92.

² *Der Deutsche Volkswirt*, March 19, 1937.

³ The final seller in the export trades was not subject to the decree.

seller; but in the case of goods which were dealt in on produce exchanges and had an organised market,¹ the importer was allowed to re-sell at replacement cost. The motive in this latter case was to encourage the formation of stocks, as otherwise the importer in a rising market would tend only to buy from hand to mouth. The permission to charge replacement cost, however, only applied to the original importer.

When prices are raised owing to the rise in the import prices, the trader or manufacturer at every stage is allowed to add on a uniform absolute amount for overhead costs and profit — the margin in no case to be higher than that obtained in 1936. The margin itself must be the “economically justifiable” margin for on-costs and profit. In principle an appeal is made to every entrepreneur to examine whether his margin is “economically justified” and to lower his price if it is too high. In practice, apart from the official caution to lower prices referred to below, it has not been possible as a rule to go behind the level which actually obtained in 1936.

In respect of imported goods the detailed control of prices is in the hands of the Exchange Control Boards,² but subject to the general supervision of the Price Commissioner. Some of his instructions to them are of interest as throwing light on his policy.³

- (1) Scarcity of supplies of foreign goods is not a justification for price increases. Supplies must be controlled and allocated by the Boards.
- (2) Where world prices have risen, the price to the final consumer must so far as possible not be

¹ An official list was drawn up of the goods in question.

² Cf. pp. 67-8 above.

³ Cf. W. Rentrop, *Preisbildung und Preisüberwachung in der gewerblichen Wirtschaft*, p. 126.

raised, the rise being absorbed by reducing trading margins.

- (3) Profit and cost margins must not represent more than a reasonable return for services actually rendered and must not rise with a rise in price. Thus *Kettenhandel* (unnecessary intermediaries) was rigidly prohibited.

The Price Commissioner, himself, in reviewing his work at the end of his first year of office, declared that he had always kept two main considerations in view : “ Firstly, the Price Stop Decree is no rigid measure which subjects the pricing system, and therewith the whole economic activity, to a dead norm. Secondly, it is not a measure which is intended to be permanent.”¹

While resisting applications for permits for exemption from the decree in all cases where these appeared to be unjustified, he gave them freely wherever he considered that a proper case had been made out. Thus — though he had a large scope for saying no — he was none the less ready to allow price rises above their level on the basic date. As a result of this the wholesale prices of manufactured consumption goods rose by 4·8 per cent. between October 1936 and October 1937 and by 2·9 per cent. between April 1937 and April 1938. But it must be borne in mind that the major part of this price increase was due to the rise, between October 1936 and 1937, in the price of imported materials, or to the utilisation of new domestic raw materials, the prices of which were adjusted as a rule to the prices of the corresponding

¹ J. Wagner, “ Die Preispolitik im Vierjahresplan ”, in *Kieler Vorträge*, 1938.

imported materials. Rubber was an exceptional case, as its price was doubled in 1937 owing to the imposition of a very high customs duty on imported rubber, the proceeds of which were earmarked as a subsidy for the construction of factories for making Buna, or synthetic rubber.

The rise in consumption goods prices would have been greater had it not been for the action of the Price Commissioner in lowering certain prices by administrative action.

During the course of 1937 reductions ranging from 5 to 10 per cent. were made in the retail prices of a large number of branded goods, chiefly in the sphere of electrical equipment, wireless accessories, chemical goods, clocks and watches and proprietary foods. Wireless valves were reduced by 20 to 25 per cent. At the same time agriculture was helped by a decrease of from 25 to 30 per cent. in the price of artificial fertilisers; staple fibre was reduced by 9·1 per cent., aluminium by 7·6 per cent., flat glass by 10 per cent., etc.

The Business Research Institute has estimated that the saving to consumer's incomes from these measures was of the order of 300 million RM. per annum. As the total of retail sales in 1937 reached 31 milliard RM., the actual benefit was not great; but it had a certain psychological effect on consumers and may have had some repercussions on other commodities, as it lessened the price differential against branded goods and tended to increase their demand at the expense of non-branded goods. The burden of the price cuts was divided between the manufacturers, the wholesalers and the retailers, though not always in equal proportions.

There are two points of importance in connection with the price cuts which need to be emphasised. In the first place, the reductions were not, as in 1931, imposed from above upon the industries and traders concerned. They were the outcome of the negotiations between the Price Commissioner and Industrial Groups, Chambers of Commerce, etc., and though no doubt they represented a compromise between the "more" which the Commissioner would have liked and the "less" for which the trade contended, the actual cuts could be described as agreed reductions. Once promulgated, they became binding on every one. Secondly, the cuts took place for the most part in industries in which cartel or other price agreements had been in force for a long time. They were products, the prices of which had fallen relatively little during the slump of 1930-32, and with the great extension of demand resulting from full employment the firms were making large profits. Despite high taxation, rising labour costs, and such factors as the industrial levy for subsidising exports, there are many economists and others in Germany who regard the price reductions as far too modest and who believe that much more can and should be done in this direction. Feeling in certain sections of the National Socialist Party is particularly strong against the cartels, whose prices, stabilised at the level of October 17, 1936, are believed to yield enormous profits under present conditions.

It remains to notice one further element in price control which is indirect. Stress has continually been laid by the Price Commissioner and by the authorities generally upon the desirability of proper book-keeping and cost accountancy. In several of the decrees

regulating the pricing system of individual branches of industry, *e.g.* the printing trades, it was laid down that even the smallest business must keep books. In a circular by Dr. Schacht in his capacity as acting Minister of Economics, on November 12, 1936, it was expressly laid down that it was the duty of the Groups to foster and encourage book-keeping amongst their individual members. Firms should not only keep a profit-and-loss account, but also should be in a position to know what their costs of production actually were, with the aim that thereby unnecessary price increases might be avoided. In the handicrafts Group a great deal of propaganda work in favour of proper book-keeping has been carried out. Whether an accurate knowledge of costs is likely to lead to independent price reductions is not altogether clear. Experience in many countries of the use made before tariff boards of costings is not very encouraging from this point of view, but there can be no doubt of their value in a system of State-controlled or regulated prices.

It is clear that a price-control system of the German type may appear water-tight on paper, and may seem to give satisfactory results as judged by official statistics of price movements, but may yet be largely evaded. Manufacturers and traders can secretly alter the quality of their goods to which the price lists apply; they can refuse to sell except in small amounts (*e.g.* potatoes only 10 lb. at a time) and so get the higher price permitted for such sales; they can endeavour to tie up the sale of one thing, which the purchaser wants, with that of others which he would not buy if he had freedom of choice; they can shorten the period during which payment must be made or exact a premium for prompt delivery, and

so on. All these devices were extensively adopted during the earlier stages of price control, and some of these were notably prevalent in 1936 before the appointment of Herr Wagner. That all evasion has disappeared since the promulgation of the Price Stop Decree is highly improbable, but the authorities have by now accumulated a very considerable experience in the administration of the system; the penalties for evasion are severe (there is no appeal against a punishment imposed by the Price Commissioner); and the risks of being reported considerable. In the case of commodities which are dealt in on a large scale, and which represent the great bulk of all transactions, it would not appear that either direct or indirect evasions are sufficiently important to alter appreciably the conclusions to be drawn from the official statistics of wholesale and most retail prices.¹ Changes of quality have, of course, occurred in connection with the transition to the use of new domestic raw materials, but these cannot be treated as evasions of the official price control. The most frequent and substantial cases of evasion of the Price Stop Decree take place where individual contracts are made, as in the case of personal services, transactions with handicraft workers, etc., and to some extent in building.

THE MOVEMENT OF WHOLESALE PRICES

This discussion of price control may be concluded with the following table showing price changes in Germany since 1933 :

¹ See below, pp. 185-6, for some observation on the official cost of living index number.

TABLE XXVIII
WHOLESALE PRICE INDEX
(1913=100)

	Oct. 1928	Oct. 1933	Oct. 1934	Oct. 1935	Oct. 1936	Oct. 1937	March 1938
Agricultural produce	134.8	92.7	100.9	104.2	103.8	105.0	105.6
Industrial raw materials and semi-finished goods :							
Total	133.4	88.9	92.1	92.5	94.7	94.8	94.4
Iron	127.8	101.7	102.5	102.4	102.5	103.0	103.7
Non-ferrous metals	107.0	50.2	45.3	51.7	52.8	57.7	50.9
Textiles	152.3	65.7	80.8	86.1	89.5	83.0	80.2
Skins and leather	145.1	61.6	61.5	60.8	72.5	74.4	74.4
Manufactured goods :							
Total	160.0	113.8	117.9	119.2	122.4	125.9	126.0
Production goods	138.6	114.0	114.0	113.0	113.2	113.1	113.0
Consumption goods	176.1	113.7	120.8	123.9	129.4	135.6	135.7
General index	140.1	95.7	101.0	102.8	104.3	105.9	105.8
Special indices :							
Building costs	177.0	126.6	132.5	131.3	133.2	135.3	136.0
Raw materials :							
Prices determined at home	134.6	103.6	104.9	104.6	105.4	104.5	104.9
Prices determined in world markets	131.4	64.0	70.4	71.9	76.4	74.7	71.5

In the above table the contrast between the general level of wholesale prices between 1937 and 1928, the last year of comparatively full employment, but when Germany was still on the ordinary Gold Standard, is noteworthy. The price changes between October 1936 and October 1937, *i.e.* the first full year during which the Price Stop Decree was in operation, are of special interest. The rise of only 1.6 points in the general index shows a remarkable degree of stability at a time when a large part of productive capacity was being strained to the limit. The fall in "raw material prices determined in the world market" from 76.4 in October 1936 to 74.7 took place entirely in the latter part of 1937. In April 1937 this index stood at 80.6. The decrease in the last column (March 1938) in the case of non-ferrous metals, textiles and "raw material prices determined in the world market" reflects the general decline in the world prices of

primary produce. They thus indicate the extent to which the German price structure is still influenced by changes in external prices. It is also clear that the Price Stop Decree has not resulted in all prices being merely stabilised at their level on October 17, 1936, but that many individual prices have been lowered where circumstances made this possible. Finally, in interpreting the table as a whole it must be borne in mind that the general index of wholesale prices is a weighted index and that the prices of agricultural produce play an important part in determining the general average.

PROFITS

It may well be asked how far the maintenance of stable prices on the whole, associated as it was with the enforced reduction in the prices of all branded goods and a declining tendency in the prices of many production goods and semi-manufactured articles, was compatible with the earning of profits. Actual wages paid in many trades (especially where overtime was worked) were rising in 1936 and 1937, and less efficient workers had to be drawn into employment; while the attainment of full capacity removed or diminished the scope for further reductions in average costs as a result of the spreading of overhead costs over a larger output. The following table shows for 1,420 companies, having a nominal capital of 8·5 milliard RM., an analysis of the principal items in their accounts from 1932 to 1936 :

[TABLE XXIX

TABLE XXIX
ANALYSIS OF RETURNS OF COMPANIES ¹

	Million RM.				
	Written off for Depreciation	Gross Earnings	Wages and Salaries	Profits	Losses
1932	730	5,800	2,700	250	640
1933	740	6,300	2,900	360	240
1934	890	8,000	3,650	450	80
1935	970	9,500	4,350	500	40
1936	1,160	11,300	5,080	590	70

The data are not available to carry this analysis beyond 1936; but in a smaller group of 50 large companies with a share capital of 2.1 milliard RM., for which the figures exist, the net profits rose from 174 million RM. in 1936 to 188 million RM. in 1937. Whereas the total national income increased from 1935 to 1937 by 12.4 milliard RM., the income from wages and salaries only rose by 6.5 milliard RM., while profits of industry and trade rose by 3.5 milliard RM. and undistributed company profits by 1 milliard RM.²

The *Deutsche Volkswirtschaft* for May 2, 1938, observed that the balance-sheets for 1937 published during the earlier months of 1938 "show almost without exception, an increase of liquid funds, often larger figures for stocks, and almost all, very substantial sums put to capital account; they mostly show further a higher balance of net profit and in part a larger payment of dividends, and almost without exception a larger volume of orders". The many foreign observers³ who, already in 1935 and 1936,

¹ *Wirtschaft und Statistik*, 1938, No. 14, pp. 576-7.

² Cf. Table XXXIV on p. 193.

³ Cf. F. di Fenizio, "Osservazioni sul controllo dei prezzi in Germania", in *Giornale degli Economisti* for 1935.

prophesied the collapse of the German price and economic policy, owing to the rise in costs and the impossibility of firms continuing to make profits under such conditions, have once again been proved to be in error. Like farmers, industrialists are apt to grumble and complain that they are working at a loss, if some of the profits which they would otherwise have made are taken from them by circumstances which are beyond their control. There can be little doubt that profits were harder to make in 1937 than in 1936, but they were undoubtedly made, and as a rule on a higher scale.¹ There is a tendency to overlook the importance, in making for large profits, of a continuous high level of output with full order books; stable interest rates; low marketing costs; and efficiency wages which, if not completely stable, at least have not been rising fast.

RETAIL PRICES

The only general German index number of retail prices is the cost of living number, which is based on a family budget for a working-class family of four persons. It has been exposed to a good deal of criticism² on the ground that the allowance for clothing, heating, etc., is far too exiguous. This criticism is beside the point, unless there are reasons to believe that the prices of articles of working-class consump-

¹ The present writer was told early in 1938 that there had latterly been an enormous increase in the sale of pictures, old furniture, *objets d'art*, etc. in Berlin, and that this was a sure sign of great prosperity in the business community; it might of course also be interpreted as a sign of fear of future inflation (though there was no evidence of this in other directions), or of a desire to escape future taxation.

² Cf., for example, the remarks in the Department of Overseas Trade Report on Economic Conditions in Germany of March 1936, p. 231.

tion, which are not included in the index number, have risen more than those which are so included. There are, however, three valid reasons for which the index number can be criticised as not affording an accurate picture of the rise in the cost of living. In the first place, the cheaper qualities of food, clothing, etc., on which figures for these items are based, are not always to be had and the consumer is driven to buy better qualities at a higher price. Secondly, in some cases, especially clothing, where the admixture of staple fibre has resulted in a deterioration of quality, what is nominally the same type of article may in reality be an inferior one. Thirdly, "the figure for housing is becoming progressively less representative from year to year, since it is based upon rents payable in respect of dwellings constructed before 1918, whereas in actual fact living accommodation is more and more taking the form of houses built since that year".¹

There can be no doubt, and it is accepted by German economists generally, that the official cost of living index number does under-estimate the actual extent to which this cost has risen since 1932. But any estimate of the allowance to be made for changes in quality, etc., must be so arbitrary as to have little quantitative value. All that can be said is that German economists do not believe that the allowance is so large as to make the index number unusable for such purposes as computing the direction of changes in real wages.

With this general warning the following table showing the official figures for the cost of living in Germany is appended :

¹ Report of Reichskreditgesellschaft for 1937-38, p. 51.

TABLE XXX
COST OF LIVING INDEX NUMBER
(1913-1914=100)

	1928	1932	1933	1934	1935	1936	1937	March 1938
Food	153.0	115.5	113.3	118.3	120.4	122.4	122.3	122.3
Housing	125.7	121.4	121.3	121.3	121.2	121.3	121.3	121.2
Heating and Lighting	136.5	127.3	126.8	126.6	126.2	126.0	125.3	125.5
Clothing	170.3	112.2	106.7	111.2	117.8	120.3	125.7	129.4
Miscellaneous	170.1	146.8	141.0	140.0	140.2	141.4	142.3	142.5
General index	151.7	120.6	118.0	121.1	123.0	124.5	125.1	125.5

WAGES AND WAGE POLICY

It has been pointed out elsewhere¹ that wages, after reaching their highest point in 1930, *i.e.* well after the boom of 1927-29 had come to an end, were heavily reduced in 1931 and 1932. When the National Socialist Government came into power at the beginning of 1933, wage rates were on the average about 22 per cent. lower than at the peak of 1930, while earnings were 30 per cent. lower than in 1929. A good many rates continued to fall slightly during 1933, but were stabilised in 1934 at the level they had then reached.

The National Socialist Government abolished (in principle) the old system of collective agreements (*Tarifverträge*) but it was immediately enacted that the existing collective wage agreements in force should be observed for the time being. The power of fixing minimum wage rates whether for a single undertaking or for a whole industry was given to State officials, appointed by the Ministry of Labour, who were known as Trustees of Labour. These Trustees have in fact revised wage rates throughout Germany and as many as 7,000 wages determinations (*Tarifordnungen*) were issued by them between 1934 and the end of 1937. But these determinations have been concerned essentially with systematising the previous chaotic wage

¹ Cf. p. 24.

agreements, which had been negotiated between local trade unions and employers. It has been a matter of fundamental Government policy that the general level of efficiency wages, as embodied in the basic wage rates in force at the beginning of 1934 should remain unchanged. Down to the time of writing (the summer of 1938) tariff wage rates have been maintained at their 1934 level. The index number of tariff wage rates, which was 100 in 1934, was 100.1 in December 1937. This stability, however, applies only to the minimum basic rate which every worker is entitled by law to receive. Down to July 1938 there was nothing to prevent the employer from offering higher wages than the tariff rates, and he has been encouraged to do so, in so far as the higher wages corresponded to greater efficiency. In certain industries, notably building and engineering, the employers were not permitted to offer higher wages to individual workers as a means of enticing them away from their previous employer. If higher wage rates are offered they must be offered to the whole body of employees. During the second half of 1937 and the early part of 1938 there was in fact a considerable rise in hourly wage rates in many of the production goods industries.¹

It must not be imagined that, even where hourly wage rates themselves were unchanged, this necessarily involved stability of earnings. For one thing there has been an increase in the length of the working day, and as German tariff wages are hourly rates, this has meant that earnings have risen considerably. In 1937 the average length of the working day was 7.68 hours,

¹ Thus in a machine tool factory in Hamburg visited by the writer in the spring of 1938, where the average tariff wage of skilled workers was 72 pfennigs per hour, the average actual wage was 1.20 RM. per hour.

as compared with 6·91 hours in 1932, but the average concealed considerable variations. Thus the working day for metal workers in 1937 was 8·49 hours, but for textile workers only 7·52 hours. In an important group of industries overtime has been worked since 1936, and higher rates for overtime go to swell the earnings of the workers concerned. Again, in comparison with 1932–33, the regularity of work has greatly increased; not merely are there no spells of unemployment except in the purely seasonal trades, but the working week, at any rate in the last two years, has been continuous and uninterrupted. Weekly earnings have further been increased by the transference of workers who have acquired a certain degree of skill into higher wage scales,¹ by the much greater prevalence of piece wages in industry and by the provision for the payment of full wages during holidays and national festivals.

The Business Research Institute has made the following calculation of the relative importance of the different factors entering into the increase of industrial wages:

TABLE XXXI

SOURCES OF INCREASES IN TOTAL INDUSTRIAL WAGES ²

	1937 over 1933		1937 over 1936	
	Million RM.	Percentage of Total	Million RM.	Percentage of Total
Increase in number employed	4,044	65·1	939	60·4
Lengthening of working day .	711	11·4	176	11·3
Higher wage rates	835	13·4	289	18·6
Promotions to higher paid posts	624	10·1	151	9·7
Total .	6,214	100·0	1,555	100·0

¹ In 1936 the number of wage-earners in Class VIII, *i.e.* in receipt of wages of 42 RM. or over, was double that in 1934.

² Quoted in the Report of the Reichskreditgesellschaft for the first half of 1938, p. 43.

Finally, account must be taken of family earnings as well as individual earnings. Whereas at the beginning of 1933 there were 1·6 wage or salaried earners per family, this had risen by the end of 1936 to 1·8, or by 13 per cent., and it has certainly increased further since then in view of the large number of women who have been brought back into industry during 1937 and 1938.

According to a recent census of wages and earnings taken in Germany, weekly wages (earnings) per head had risen in 1937 by 11·9 per cent. since 1934, and real earnings, *i.e.* wages corrected for the rise in the official cost of living index, by 7·7 per cent.¹

The spread of money wages in Germany is considerable, as in England. The following examples show some of the average weekly gross earnings in the different industries in 1937:

TABLE XXXII
WEEKLY EARNINGS IN VARIOUS INDUSTRIES

	RM.
Metal-working industries	49·28
Chemical „	49·78
Book printing „	59·86
Skilled linotype operators on night duty . .	110·00
Linen industry (male assistants)	20·00
Linen „ (female „)	14·50
Bookbinding (skilled females)	27·70
All industries (skilled and semi-skilled males .	43·70
„ „ (male assistants)	33·50
„ „ (female workers)	21·80
General average (males and females)	36·30

The figures given so far refer to gross wages, but the question arises how these are related to net wages.

¹ The following figures calculated over the cost of living index number show the rise, on this basis, since 1932 of the average real wage (before

In Germany direct taxation hits even the low-paid wage-earner in the form of the wage tax. It is estimated that the average deduction from gross wages for taxation in 1932 was 3 per cent.; in 1934 this amounted to 4 per cent. and in 1936 and 1937 to 4.5 per cent. The deductions for social insurance amounted to 9.5 per cent. in 1932 and to 9.0 per cent. from 1934 to 1937. Thus total deductions in respect of taxation and social insurance were 13.5 per cent. in 1936 and 1937. To this must be added the weekly contribution to the Labour Front which is estimated by a German source at 1.5 per cent. This is said to be a lower contribution than was formerly paid, at any rate by skilled workers, to the trade unions. But the Labour Front embraces all workers, whereas only a section of the workers was organised in the trade unions. There is further the weekly contribution to the *Winterhilfe* (the fund for the relief of poverty in the winter months), which is a very small sum for the average wage-earner; and the cost of his uniform if the worker belongs to the S.A. The total deductions may therefore be put at an average of from 15 to 20 per cent. of the gross wage. This is also borne out by recent German estimates (end of 1937) that the average gross wage of all workers was 36.3 RM. per week, and the average net wage, after all deductions, was 29 RM. (*Deutsche Volkswirtschaft*, September 1937).

deduction of taxation and insurance contributions, etc.) of the German industrial wage-earner :

July–December 1932 = 100

	1933	1934	1935	1936	1937
Average weekly real earnings	106.7	111.4	114.2	117.7	121.8
Average hourly real earnings	104.4	104.9	106.3	107.2	108.9

The wage-tax is a much smaller average burden than the social insurance contributions, of which the unemployment insurance contribution under present conditions is clearly a tax on wages, since the annual surplus of revenue over expenditure in the fund is very large.¹ While the wage-tax is heavy on a bachelor, it diminishes to a very low figure in the case of a married couple with children, as can be seen from Table XXXIII :

TABLE XXXIII
DETAILS OF TAX ON WAGES

	Wage Tax per Month (RM.)			
	Bachelor	Married	Married with One Child	Married with Two Children
Income of 1700 RM. per annum	9.1	4.42	1.82	nil
„ 2100 RM. „	13.52	6.80	4.16	1.82
„ 2700 RM. „	23.42	11.44	8.32	5.98
„ .. RM. „	..	..	..	..

The married wage-earner with an annual income of 2,700 RM. would pay no wage tax if he had four children.

It must be remembered that the very heavy levies on gross wages which have been described in the foregoing pages do not represent something entirely new in Germany. Taxation of wages has been a long-standing feature of the German tax system. Even in 1929, at the top of the boom, the wage-tax was $3\frac{1}{2}$ per cent. of the average gross wages, and insurance contributions were $8\frac{1}{2}$ per cent. In the depression years 1931 and 1932 these figures were 3 per cent. and $9\frac{1}{2}$ per cent. respectively. To these must be added

¹ In December 1937 it was announced that a large part of the annual surplus in future would be allocated to the finance of marriage loans, family allowances and to help other insurance funds, especially old age and invalidity.

(for those who paid them) trade union contributions. The total figure for 1936 and 1937 of $14\frac{1}{2}$ per cent. for wage-tax and insurance contributions is thus not much in excess of the former scale of deductions; while various measures since adopted, such as the graduation of the *Bürgersteuer* or poll tax imposed in 1931, and the much more liberal allowance for children, have at least lightened the burden for families with several children.

The distribution of the national income before deduction of taxation is shown in Table XXXIV:

TABLE XXXIV
ANALYSIS OF NATIONAL INCOME ¹

	Milliard RM. (Milliard Marks for 1913)						
	1913	1928	1933	1934	1935	1936 *	1937
1. Agriculture and forestry	5.8	5.8	4.2	5.1	5.6	5.5	5.6
2. Profits of industry and trade	9.2	12.2	6.4	7.2	8.5	10.4	12.0
3. Wages and salaries	20.7	42.6	26.0	29.2	32.3	35.3	38.8
4. Interest	5.7	2.8	2.4	2.6	2.6	2.7	2.8
5. Rent	0.9	0.8	0.7	0.8	0.8	1.0	1.0
6. Pensions and social insurance benefits	1.4	8.4	8.5	7.8	7.7	7.4	7.0
<i>Private Income</i> :	43.6	72.7	48.2	52.6	57.5	62.3	67.2
Add :							
7. Undistributed Company profits	1.2	1.3	0.2	0.7	1.2	1.8	2.2
8. Earnings of public undertakings	1.1	2.5	0.8	1.0	1.1	1.6	1.5
9. Employers' contribution to social insurance	0.5	2.3	1.7	2.0	2.2	2.4	2.6
10. Taxes not included in private income	0.1	3.0	2.3	2.2	2.3	2.3	2.3
Deduct :							
11. Double counting owing to public transfers of income	0.8	6.3	6.6	5.8	5.7	5.3	4.9
<i>National Income</i>	45.7	75.4	46.6	52.7	58.6	65.0	71.0

* From 1936, including the Saar.

¹ *Statistisches Jahrbuch*, 1937, p. 534, and *Wirtschaft und Statistik*, 1938, No. 20, p. 804.

LABOUR POLICY

One of the earliest steps of the National Socialist Government in 1933 had been to dissolve all the 169 trade unions then existing¹ and the employers' associations, in so far as the latter constituted organisations for bargaining with labour. In place of these there was formed the German Labour Front, which took over the funds of the trade unions. In principle membership of the Labour Front is voluntary, but in practice all workers belong to it and so also do most employers.² The latter are included on the ground that the Labour Front should incorporate in one body all those engaged in economic activity (*Zusammenschluss aller schaffenden Deutschen*), whether hand or brain workers. The Labour Front is not a part of the machinery of the State and is in no way subject to the Ministry of Labour; it is in legal fiction an independent organisation of the National Socialist Party. Its functions are set out in the Decree of October 24, 1934: "The aim of the German Labour Front is the formation of a real community of achievement (*Leistungsgemeinschaft*) amongst the whole German people. It must seek to ensure that every individual can take his place in the economic life of the nation in that mental and physical condition which will make for his greatest achievement, and thereby secure the greatest gain to the community as a whole. . . . The Labour Front must seek to preserve industrial peace by inculcating in employers (*Betriebsführer*) an understanding of the legitimate claims of their employees

¹ At the beginning of 1933 out of about 15 million wage-earners, approximately 5 millions were organised in trade unions.

² In 1937 the Labour Front had a membership of 25 million persons and a yearly income of over 360 million RM.

(*Gefolgschaft*), and in the employees an understanding of the situation and the possibilities of the business in which they are working. . . . Its duty is to find that compromise between the legitimate interests of all concerned, which corresponds to the fundamental principles of National Socialism, and which will limit the number of cases which are referred for final decision to the State authorities established under the law of January 20, 1934. . . . It has the duty of administering *Kraft durch Freude* (Strength through Joy) and has to supervise vocational training."

The Labour Front has no direct power over wages and conditions of work and, in general, it has no mandatory authority to intervene in industrial relations, though the functions it exercises in the conciliation of disputes keep it in close contact with every aspect of these relations.

With its large revenues and staff, and the authority of the Party behind it, the Labour Front is, in practice, one of the most powerful organisations in the country, and its activities are extraordinarily many-sided. Thus it devotes many millions of marks annually to the relief of those of its members who are in poverty or distress, and also contributes large sums to the finance of working-class housing. It has a section entitled "Beauty of Work" (*Schönheit der Arbeit*), which annually inspects factories and workshops all over the country and makes suggestions for improvements in such matters of lighting, canteens, washing arrangements, rest and recreation facilities, etc. The suggestions are only in the form of "recommendations", but the employer who ignores them without being able to show good cause is likely to find that the Labour Front has at its command means of persuasion

which are none the less effective for being unofficial. It is calculated that in 1936 and 1937 employers were "induced" to spend sums amounting in all to over 300 million RM. on improvements to their premises. There is also an annual competition for the honour of being designated a "model business" (*Musterbetrieb*), i.e. a concern which has reached the highest standard in its provision for the welfare of its employees. Those who gain this distinction (the number is deliberately kept quite small) are allowed to display a special token on their works and on their notepaper; it is an honour which is greatly prized on general grounds and which, from an advertising point of view, brings with it some solid economic advantages. In the early summer of 1938 as many as 84,000 businesses competed for this honour, and they were able to prove that they had expended voluntarily 786 million RM. (nearly £40 millions) in welfare schemes, housing, etc., on behalf of their employees. One hundred and two firms in all gained the distinction.

The Labour Front, further, has developed on a most elaborate scale the vocational training of the youth of the country. A recent census based on the Labour Books of the wage-earning population has shown that 13 out of every 100 German workers must be classified as unskilled (*ungelernt*). Compared with other countries it seems a low proportion, but it is the aim of the Labour Front to reduce this still further. Apart from all the schemes of apprenticeship and the very numerous schools of vocational training, it has established in every town and village of Germany, with the aid of an army of voluntary workers, a system of competitive examinations (both theoretical and practical) for German workers engaged in their

various occupations. Some two million persons take part annually in this competition, and by a weeding-out process this number is reduced to about 5,000, who come from all over Germany for a final examination (*Reichsberufswettkampf*) in a German city (in 1937, Hamburg). Of these some three or four hundred are selected as the winners (*Reichssieger*), and for them the path to advancement is rapid and sure. But many of the better qualified of those eliminated in the earlier rounds of this vast examination are marked out for special consideration and assistance. It is the aim of those at the head of the Labour Front that no one of real capacity throughout Germany shall fail to get his chance of rising to the top for lack of opportunity or want of money.

The most spectacular of all the activities of the Labour Front is *Kraft durch Freude*.¹ In part it is a vast travel organisation for enabling the German workers to get cheap holidays. It owns its own fleet of large steamers and provides sea trips of a week or more for the equivalent of two or three pounds, and organises holiday excursions to the Bavarian Alps and other beauty spots of Germany. Six million persons took part in these trips in 1936. It further provides concerts and musical entertainments, even in the smaller villages, at prices which the masses can afford, and it encourages sport in many ways.

The legal position of labour is governed by the law of January 20, 1934, for the Regulation of National Labour. The scope of this law is too wide even to be fully summarised here, and the reader is referred to

¹ For a favourable appreciation of the value of what is done by *Kraft durch Freude*, on the part of a hostile critic of National Socialist Germany, cf. *The House that Hitler Built*, by Professor S. H. Roberts, pp. 224-8.

the excellent summary in Mr. Rawlins' Report on Economic Conditions in Germany to 1936 (Cmd. 641 of 1936, pp. 212-20). It must suffice here to say that all strikes and lock-outs are prohibited, and collective disputes ¹ (those arising between the employees of a firm and the management of that firm) are regulated by the Labour Trustees, who are State officials under the Minister of Labour. The Labour Trustees have absolute powers, subject to the general direction of the State, to fix minimum wages, and they have power, in the *Tarifordnung* which they prescribe for an industry or any branch of it, to increase hours of work up to a maximum of ten hours. So far as wages in excess of minimum rates (down to June 25, 1938) are concerned, these are determined by the employer after consultation with the Confidential Council, and only in case of a dispute which cannot be settled within the business is reference made to the Labour Trustee, who then acts as arbitrator and from whose decision there is no appeal.

Every business employing more than twenty people has a Confidential Council (*Vertrauensrat*) consisting of from two to ten members of the staff and the employer. The worker's representatives are elected by secret ballot from a panel of names drawn up by the employer in co-operation with the leader of the works cell (group of Party members within the works).²

¹ Individual disputes over the interpretation of the contract of service are settled within the firm with the aid of the Confidential Council and of officials from the Labour Front, or, if no agreement can thus be reached, by appeal to a Labour Court. The Labour Front provides free legal assistance to every worker. Although the number of disputes referred to the Labour Courts is much fewer than formerly, it is still considerable. In 1936, the last year for which there are figures available, the number of cases settled by this Court was 174,476 as compared with 427,604 in 1929.

² The last election to the Confidential Councils took place in the spring of 1935; since then the tenure of the holders of this office has been prolonged by law.

The duty of these Councils is to improve mutual relations and to act as an intermediary between employer and employed. They have to be consulted in the drawing-up of works rules, the fixing of fines, etc.¹ The legal power of the Confidential Councils, which are merely advisory bodies, are certainly very much more restricted than those of the Works Councils under the Works Councils Act of 1920, and the employer clearly has an important voice in their composition.² But the old Works Councils, even in the most favourable period of their short existence, were not able to do much to curb the arbitrary power of the employer,³ while by 1932 the depression had deprived them of practically all influence. Discussions with employers and with labour officials in Germany give the impression that although the nominal power of the employer is now greater than in 1932, his actual scope for abusing his authority is less. In any case, full employment and acute labour shortage must strengthen the position of the worker *vis-à-vis* his employer, in so far as there is no legal restriction on the former's right to change his place of work.

If a worker, who has worked in the firm for one year, is dismissed, he can, provided the firm employs at least ten persons, appeal to the Labour Court against the dismissal. If the Court decides that the employer's decision is harsh and unreasonable and not necessitated by the financial position of the firm, it

¹ All fines go to the welfare funds of the Party.

² The chief assistant to the Trustee of Labour for the Nordmark told the author in the spring of 1938 that in his experience the Confidential Councils were not mere cyphers, concerned only with carrying out the policy and wishes of the employer, but genuinely represented and upheld the interests of the employees.

³ Cf. C. W. Guillebaud, *The Works Council: A German Experiment in Industrial Democracy*, chap. vi.

must order the withdrawal of the notice, and decide the amount of compensation payable to the worker if the employer refuses to obey the order.

Finally, there is the institution of the Courts of Social Honour (*Soziale Ehrengerichte*). These Courts are empowered to try cases where either a worker or an employer has offended against "social honour". In practice the majority of cases have been brought against employers on such grounds as that they have "abused their position in the firm, maliciously exploited the workers or insulted their honour". The Court can warn, reprimand, fine up to 10,000 RM., or remove an employer from his position as head of the firm. This last penalty is only rarely inflicted. In the important area of the Nordmark, including Hamburg and Kiel, there were twenty-five Social Honour decisions affecting employers in four years, in only one of which an employer was deprived of his position, while the remainder were fined. But there were many more cases where the employer was warned by the Labour Trustee, with the threat of the Court of Social Honour in the background.

Without a very extensive first-hand knowledge of labour conditions throughout Germany, it would not be proper to attempt to make any generalisations as to the present state of industrial relations in Germany. But this much may be said: Firstly, National Socialist policy in this matter has been directed towards raising the status of the worker (the ordinary wage-earner) in the social scale, both as a desirable end in itself, and as a partial make-weight or *quid pro quo* for the loss of elected trade unions and for many other restrictions on the freedom of self-expression. How far the German worker is satisfied

with the *quid pro quo* must remain a matter of opinion—in any case this aspect cannot be disentangled from many other considerations which affect the mind of the worker.¹ But there can be no doubt as to the ability with which those in control of the State have sought to achieve this end. When Herr Hitler, echoing Frederick the Great,² said, “I am the first worker [*Arbeiter*] in my State”, he was making a very profound appeal to the imagination of the masses. The chief national holiday, May 1, is Labour Day, and across most of the banners in the processions are written the words, “Honour work and esteem the worker”.

The compulsion on all young men, in addition to military service, to spend half a year doing hard work with pickaxe and spade in the Labour Service, is one of the most widely known innovations of the new régime. Thereby it is sought to weld the youth of the nation into a real community irrespective of class divisions, and at the same time to inculcate the lesson of the dignity of manual labour. For six months these men work without pay to improve the soil of Germany, and “no matter to what position in life they return, they bring with them a clear consciousness of the truth that work is not only a means of earning money, but is the moral basis of national life”. Another, minor but none the less significant, illustration of the attitude of the Party is the pressure brought to bear by the Labour Front upon employers and leading executives of large firms to take their lunch at the canteen with their employees at regular

¹ See also below, pp. 269-70.

² Frederick the Great said: “I am the first servant (*Diener*) of my State”.

intervals; this is apt to be a source of embarrassment to both parties, but is particularly unwelcome to many employers. Social status counts in Germany for more than in most other countries, and National Socialism has worked hard to enhance the self-esteem of the worker. Secondly, although the Labour Front includes employers, and was intended to represent the community of interest of all those engaged in productive work, it has almost inevitably developed a strong pro-worker bias. Even German employers who are enthusiastic National Socialists are wont to use harsh words when discussing the activities of the Labour Front and the extent to which they interfere with their businesses. Very many of the employing class have found that the little finger of the Labour Front is thicker than the loins of the old trade unions. The trade unions could at least be fought, but behind the Labour Front stands the all-powerful Party. To regard the Labour Front as a tool of the capitalist classes for keeping the workers in subjection would be a complete misconception of the actual situation. Thirdly, the extent to which ability and capacity are recognised and helped to-day in Germany represents a very real step forward towards the goal of the equalisation of opportunity. Neither lack of money nor considerations of social class are allowed to stand in the way of real merit. A great deal is done both to discover and to encourage and foster native ability, wherever it is to be found. Fourthly, Germany has always been a very advanced country in the matter of the regulation of labour conditions, and this tradition is still continuing. The present writer,¹ who had made a somewhat intensive study of some aspects of labour

¹ Cf. *op. cit.* on p. 199 n. above.

legislation in the Germany of the Weimar Constitution; gained the impression, on revisiting Germany under National Socialism, of a continuity of policy in regard to the care for and protection of labour which he had not altogether expected to find. To some extent the same individuals (*e.g.* Dr. Syrup) who had held important posts in the Labour Ministry under earlier Governments were still in high offices there, and the general attitude towards the improvement of labour conditions had certainly not become less progressive.

It is known that there is a new law in process of preparation which will amend the present Law for the Regulation of National Labour of January 1934, and all the indications point to a number of very substantial changes being made, which will improve the position of labour and involve further encroachments on the freedom of action of employers in the sphere of industrial relations. It is necessary, however, to make one reservation. During the latter part of 1937 and still more in the early months of 1938, the tremendous pressure exerted to carry out the Second Four-Year Plan led to the relaxation of many provisions for the protection of labour (hours of work, juvenile and women's labour, etc.), and therefore to some deterioration in actual working conditions, though there was a certain financial compensation in the form of higher rates for overtime work. This deterioration was excused on the ground of urgent national necessity, and was officially regarded as merely a temporary measure, that would be withdrawn as soon as the state of emergency was over. It is right that both the fact and the official explanation should be recorded.

THE STANDARD OF LIVING

It is no easy matter to estimate the aggregate effects of the economic policy of Germany in recent years upon the standard of living.¹ There are many factors which have to be taken into account, and some of these are intangible and cannot be assessed in terms of a money sum.

Some light on the standard of living can be obtained from the output of consumption goods. Although the output increased considerably in 1933 and 1934, there was actually a decline in 1935 on 1934, due partly to the after effects of the hoarding scare of 1934, and partly to raw-material difficulties which resulted from the cutting-down of imports in that year. In 1936, on the other hand, there was a very considerable rise in the consumption goods output and this was continued in 1937 and 1938.

The official index number for the production of consumption goods of elastic demand shows the following changes :

TABLE XXXV
INDEX NUMBERS OF OUTPUT OF CONSUMPTION GOODS
(1928=100)

1929 monthly average .	97.0
1932 " " .	74.0
1933 " " .	80.1
1934 " " .	89.6
1935 " " .	85.6
1936 " " .	95.6
1937 " " .	101.5
1938 " " .	107.4
(1st quarter)	

¹ It must be borne in mind throughout the following pages that the term "standard of living" is being used solely in its economic sense. We are

The general magnitude of industrial production in 1937 as compared with the last boom year of 1928 and with the depression year of 1932 can be seen from the following estimates prepared by the Business Research Institute : ¹

TABLE XXXVI
GERMAN INDUSTRIAL PRODUCTION *

	Milliard RM. corrected to 1928 Price Level		
	1928	1932	1937
Total	33.7	19.6	40.0
Capital goods	13.5	5.0	17.6
Other production goods	6.8	4.6	8.5
Consumption goods :			
(a) elastic demand: textiles, house- hold utensils, etc., boot and shoes	8.4	5.6	8.5
(b) inelastic demand: mainly food- stuffs	5.0	4.4	5.4

* Net production values.

In comparing the above figures for 1937 with those for 1928 it must be remembered, firstly, that the population of Germany was larger by 3½ millions in 1937 than in 1928, so that a good deal of the increase in output of consumption goods would be absorbed by the growth of the population, and also that the average age of the population was older, so that there was a larger proportion of adults ; secondly, that the real national income was swollen in 1928 by the large volume of imports, especially of food, but also of other consumption goods financed by foreign loans, though against this must be offset a much greater volume of export goods in 1928 than in 1937, and there was also

concerned here with problems of " economic welfare " and not of " general welfare ".

¹ Quoted by the Reichskreditgesellschaft: Report for the first half of 1938, p. 16.

in domestic production a larger amount of working for stock in 1928 than in 1937; thirdly, that the figures in the above tables of output of consumption goods relate only to industrial production and do not include foodstuffs other than manufactured foodstuffs. The general conclusion to be drawn from these figures would seem to be that the standard of living of the population as a whole, as measured by the available supply of industrial consumption goods, was much higher in 1937 than it was in 1932, and that by the later date it had about regained the level of 1928.

The relative position of 1937 in comparison with 1928 appears in a more favourable light in the following table :

TABLE XXXVII

REAL INCOME AND CONSUMPTION ¹

(Calculated over the Cost of Living Index Number)

	In Milliard RM.		
	1929	1932	1937
National income	74.8	56.8	87.5
Income from wages and salaries	42.4	32.3	48.5
Turnover of retail trade	36.0	28.5	37.6

But even apart from the inadequacies of the cost-of-living index number itself, this table exaggerates the apparent rise in real income and consumption since 1932, since there is reason to believe that the prices of articles not consumed by the working classes have risen relatively more than the prices of those articles of working-class consumption represented in the cost-of-living index number. It is unfortunately not possible to estimate the allowance to be made for this factor.

¹ *Frankfurter Zeitung*, April 1, 1938.

The broad conclusion that the standard of living in 1937 had approximately reached the level of 1928-29 is borne out on the whole by the figures of consumption per head of foodstuffs, etc.:

TABLE XXXVIII

CONSUMPTION PER HEAD OF FOODSTUFFS, ETC.¹

	Consumption per Head		
	1929	1932	1937
Wheaten flour (kg.)	55.7	44.6	55.4
Rye flour (kg.)	51.8	53.5	54.8
Meat (kg.)	44.9	42.1	45.9
Lard (kg.)	8.2	8.5	8.1
Butter (kg.)	8.0	7.5	8.9
Margarine (kg.)	7.0	7.8	5.4
Milk (litres)	117.0	105.0	111.0
Eggs (units)	141.0	138.0	122.0
Fish (kg.)	9.2	8.5	12.2
Potatoes (kg.)	172.0	191.0	174.0
Sugar (kg.)	23.4	20.2	24.0
Tropical fruits (kg.)	7.8	8.0	5.8
Coffee (kg.)	1.9	1.6	2.1
Beer (litres)	88.6	51.4	62.9
Cigars (units) *	107.0	85.0	129.0
Cigarettes (units)	520.0	483.0	609.0
Smoking tobacco (for pipes) (kg.)	0.6	0.5	0.5

* When the German is feeling prosperous he smokes cigars, but when things are going badly he falls back on his pipe.

Some of these changes in consumption between 1929 and 1937, such as the increase for rye flour as against wheaten flour, the decrease for margarine, and the increase for fish, are largely the results of Government policy. In the case of potatoes the increase in 1932 and fall-back in 1937 shows clearly the results of the change from depression and poverty to a condition of boom and relative prosperity.

The following extract from the Report of the

¹ Report of the Reichskreditgesellschaft for the first half of 1938, p. 44.

Reichskreditgesellschaft for the first half of 1938 illustrates another method of approach :

“ The greater part of the goods which pass over to final consumption come through the hands of retail traders, and a study of retail trade figures is thus capable of yielding useful evidence as to the proportion of total income which is devoted to consumption purposes. During the years 1936 and 1937 retail sales averaged 44 per cent. and 45 per cent. of the national income respectively, whereas the ratio in 1928 and 1929 was about 48 per cent. What this means is that substantial shifts have taken place in the disposition of national income in favour of public and “ organised ” expenditure and consumption. In 1937 retail sales totalled 30·9 milliard RM., and were thus more than 8 milliard RM. higher than in 1932, though still about 6 milliard RM. below the level of 1929. When account is taken, however, of the fact that retail prices were about 27 per cent. higher in 1929 than in 1937, it appears that goods sold — and therefore effective consumption — were in volume terms higher in the latter year than in the 1928-29 period in respect of most articles ; though, in addition, considerable changes have no doubt taken place both in the distribution of expenditure among the various types of goods and in the quality of the goods bought.”¹ The reference in the last sentence to quality is important. There is no means of estimating precisely how much the quality, for example, of textile goods has deteriorated as a result of the compulsory admixture of staple fibre with cotton and woollen goods. There is reason to believe that this deterioration was serious in 1935 and 1936, when manufacturers had not yet gained experience in

¹ *Loc. cit.* pp. 45-6.

the blending of the new and old fibres, and when manufacturing processes were still relatively imperfect. But since then important progress has been made in both respects and the inferiority of the new products has certainly become much less marked.

Still less, however, is it possible to evaluate the degree and importance of "psychic dissatisfaction", which arises when consumers are unable to buy what they want at the moment and have to be content with something different, *e.g.* with beef when they want pork, or if they are told to eat fish instead of meat. The amount of weight to be attached to this factor is clearly a matter of individual judgment.¹

Over and above those which have already been discussed, there are certain other elements in the standard of living in Germany which merit attention.

The Jews and non-Aryans constitute over 1 per cent. of the total population of Germany. It is clear that discriminatory legislation coupled with administrative measures which have been taken against them are reducing the standard of life of the whole of this section of the population, and no account of the standard of living in Germany can ignore this fact.²

A great deal has been done in recent years to improve the conditions of the poorer sections of the German population. The marriage loans, to the number of 925,000 (600 million RM.) from August 1933 to March 1938, and with an average value per married couple of 660 RM., are not merely a part of

¹ The more effectively propaganda can steer consumption voluntarily into the direction desired by authority the less is likely to be the amount of psychic dissatisfaction. Cf. pp. 163-5 above.

² This enforced reduction in the standard of living is also being imposed on a number of those priests and clergy of the Christian Churches who are in open opposition to tenets of the National Socialist régime.

population policy, they are also a very genuine improvement of the conditions of those who are setting up a home. Moreover, since 1935 and 1936, in poor families a single gift of 100 RM. has been made for each child in excess of four, while running allowances of 10 RM. per month were paid in respect of each child in excess of five.¹ Here again the political motive is obvious, but English experience shows that serious poverty arises most commonly where the size of the family is above the average. The *Winterhilfe*, a fund administered by 1,450,000 voluntary workers, is raised partly by a very small levy per head of the employed population and partly by collections and by gifts in kind; including the value of the latter it produces annually a larger total sum than the whole of the yield of the property tax (*Vermögensteuer*). It constitutes an organised charity on a scale not known in Germany before 1933, and it distributed nearly 1.5 milliard RM. between 1933 and 1937, chiefly in the form of gifts of food and coal during the winter months to those with large families or whom misfortune has reduced to poverty. Further, by legislation and by direct measures the standard of living of the half million home-workers (*Heimarbeiter*), who form an important section of the population in many of the country districts, has been raised in a very marked degree above its former level. There are many other directions, such as public health, especially in the factories, vocational guidance and training, the equalisation of opportunity by the reward of merit irrespective of class or wealth, labour service and

¹ In April 1938 the income level for the receipt of family allowances was raised to 8,000 RM. per annum, and the allowance of 10 RM. per month was given already in respect of the third and fourth child, while 20 RM. were given for the fifth and each succeeding child.

so on, in which directly or indirectly the standard of living is being raised in Germany. In some aspects of social welfare German practice is clearly in advance of practice in other countries.

Another important element in the condition of the people is the universal extension of the system of holidays with pay, which, combined with the organisation on a vast scale of cheap holidays by the *Kraft durch Freude* section of the Labour Front, has brought travel and recreation within the reach of the masses of the population. The Germans themselves attach very great importance to this form of collective expenditure on behalf of the wage-earning classes, and though they may tend to exaggerate it, it is certainly a factor which cannot be ignored.

On the other side of the picture must be mentioned the state of housing, which is still far in arrears despite the 1,400,000 dwellings which have been built between the end of 1932 and the end of 1937.

In conclusion, it is incontrovertible that the standard of living as a whole, taking into account employed as well as unemployed, has risen very materially since 1932. It would no doubt be possible to find individuals or individual sections of the population whose standard of living had not risen, or even had fallen, but the general picture of improvement could not be gainsaid. Those who speak of a very low standard of living in Germany to-day are either making a comparison with 1928, in which case, allowing for changes in the value of money and the absence of imports of foreign capital, the difference certainly is not large; or are comparing Germany with England, which is being largely helped by her interest on foreign capital previously invested abroad;

or are comparing what is with what might be, if Germany were to devote a smaller proportion of her real national income to investment (above all, rearmament) purposes, and were still to enjoy the advantages of full employment.¹

No one who is acquainted with German conditions would suggest that the standard of living is a high one, but the important thing is that it has been rising in recent years, and that the attitude of a people towards their standard of living (even if it is low) is very different according as it represents an improvement or a deterioration on what they have experienced in the recent past. If the intensification of rearmament which took place in the summer of 1938 were to continue, or if a war were to break out, there would undoubtedly be a marked deterioration of the standard of living below the 1937 level. But with any general measure of appeasement in Europe, leading to a decrease in armament expenditure, it should certainly be possible to raise further the German standard of living.

¹ See below, pp. 234-41.

CHAPTER V

SOME BASIC FEATURES OF THE NATIONAL SOCIALIST ECONOMIC SYSTEM

THIS chapter is an attempt to sum up in a few words what would appear to be the salient characteristics of the German economic system as it took shape during the years 1933 to March 1938.

STATE CONTROL OVER INVESTMENT, THE MONEY MARKET, THE RATE OF INTEREST AND THE FOREIGN EXCHANGES

By the establishment of a rigid and highly effective control over the foreign exchanges the German economy has in a large measure, though by no means completely, been rendered independent of fluctuations in the outside world. Under these conditions external changes could alter the total volume of Germany's foreign trade, but could not cause wide divergences to occur between the value of imports and exports taken as a whole.

Down to the end of 1937 it was in fact possible to preserve a favourable balance of trade and to redeem a considerable part of the foreign debt whose existence has been, and still is, so great a handicap to Germany's freedom of movement in her commercial relations with foreign countries. As a further result of foreign exchange control the internal monetary and price structure has been divorced from world price movements

and from the influence of gold. The export of capital also can be effectively held in check.¹

Inside Germany the monetary system has been based on the general principle that the effective volume of money and credit in circulation should keep pace with the growth of production and the output of goods and services.²

Unlike the American experiment of the New Deal, and disregarding the views of many recent monetary "reformers" of the Major Douglas type, the Germans in their recovery measures have laid predominant emphasis upon investment as contrasted with direct transfers to consumers. They have proceeded along the common-sense lines that work and production alone constitute the real source of the wealth of a community, and have relegated money to the subordinate though very important rôle of financing investment in all its forms, including output of every kind—but chiefly output in the production goods industries; and they have left it to the investment and employment thus created to produce incomes and savings. In the process they have adopted what, in appearance at least, has been a purely inflationary policy, inasmuch as the money (it is entirely immaterial that it should have taken the form of bank credit and not of paper money) has been created by the Reichsbank and the banking system as a whole *in advance* of the production of wealth—though not, be it noted, in advance of the *orders* for the production of wealth. The result has demon-

¹ The disadvantages of the control of the foreign exchanges are stressed above, pp. 70-2.

² The Germans are fond of the slogan "*Mengenkonjunktur statt Preiskonjunktur*", by which they mean that their objective is a boom expressed in volume of output and not in value due to price rises.

strated in practice the truth which R. F. Kahn in this country has propounded in theory, namely, that the creation of money (inflationary finance) cannot produce an inflationary rise in the general level of prices, with all its attendant evils, so long as there is an abundant amount of idle resources and unused productive capacity available. Expressed in technical language, what is needed is that the short-period supply curves of output as a whole should be highly elastic.¹ It is true that there are two conditions which must be fulfilled in order that this general proposition may be valid: there must be substantial stability of the level of efficiency wages, and the process of money creation must not be accompanied by the export of capital on a large scale, *i.e.* by a flight from the currency. But in the case of Germany both these conditions have in fact been satisfied as a result of direct State intervention.

It would not appear that, in adopting this policy, the Germans were governed by considerations based on economic theory and analysis,² but rather by the

¹ R. F. Kahn, "Home Investment and Unemployment", *Economic Journal*, June 1931.

² Since the appearance of Mr. Keynes' *General Theory of Employment, Interest and Money* many Germans have tried to rationalise their official policy by reference to his theories. Independently (in whole or part) of Mr. Keynes, German economic writers, such as Richter-Altschäffer, Nahmer, Grünig, Föhl and others, have developed theories on somewhat similar lines. But there is no evidence to show that the original policy was influenced at all by abstract theories. In so far as there could be said to have been an economic theorist of early National Socialism, Herr Gottfried Feder, who belonged to the extreme left-wing of the Party and subsequently fell into disfavour and obscurity, would seem to have the best claim to the title.

Dr. Schacht has been the financial genius of the new economic system, but the agricultural and industrial controls have mainly been worked out empirically by the civil servants and administrators, with some regard to war-time methods, *e.g.* those developed in England in 1917-18—*Wehrwirtschaft*, it may be noted, is now an important special branch of economic study in Germany.

In the case of agriculture the ideas of the pre-war German economist, G. Ruhland, appear to have been of great importance.

necessities of the situation in which Germany found herself in 1933. At that time the production goods industries were abnormally depressed and suffering from vast unemployment. By contrast, the consumption goods industries were doing relatively well. It was natural, therefore, to apply the stimulus of State orders to that part of the economic system which was hardest hit, and where, moreover, considerations both of the supply of raw materials, and "labour intensity" made it probable that a given expenditure of public funds would give rise to the maximum amount of new employment. Moreover, the decision not to devalue had left the German price level above that of the countries which had devalued their currencies, and made it imperative to do nothing which could raise initially the general level of prices, such as allowing wages or individual prices to rise, or relying upon an expansion of consumer's demand reacting back on the demand for the products of this investment goods industries. In any case the high rate of interest would have impeded this latter type of reaction, while any growth of consumption would have increased the imports of foreign raw materials for which finance could not be provided. In these circumstances to have attempted to finance consumption would have been worse than useless, so the only alternative left was to concentrate every effort upon creating employment and stimulating output. Even the novel device of using employment creation bills as a means of financing public investment, may be said to have originated automatically out of the breakdown of the capital market, combined with the then existing legal provisions governing the lending powers of the Reichsbank.

While recovery has been directly based upon the expansion of State investment, at first in the form of public works but later to be potently reinforced by rearmament expenditure, a most essential feature has been the control of the volume and direction of private investment. In place of the ordinary profit incentive to investment in a free economic system, there has been a careful and thorough regulation which was initially designed mainly in order to prevent over-investment in particular industries, but was subsequently extended to the general allocation of investment in accordance with its importance for the needs of the State.

The rôle of the rate of interest as an index for the distribution of investment has been greatly restricted; and once the rate of interest had been reduced by deliberate measures to a level which was low in relation to the prospective return on capital, it was stabilised at that level by means of an appropriate manipulation of the money and capital markets.¹ At the same time the Law preventing the distribution of dividends in excess of 6 per cent., together with the control over new capital issues, has greatly lessened the importance of the Stock Exchange, except as a market for dealing in old shares, and has eliminated its influence as a potential disturbing factor in economy.

STABLE WAGES AND STABLE PRICES

The level of minimum tariff wage rates has been kept unchanged since 1933, though there have been

¹ The *stabilisation* of the long-term rate of interest since 1935 has been a factor of great importance both from the standpoint of saving and of investment.

considerable increases in actual hourly earnings, and still more in weekly earnings, especially in the production goods industries. Earnings have risen owing to such causes as the rise in efficiency, the scarcity of labour, the extension of piece-wages, overtime, etc. But basic efficiency rates have not been altered, and the most important single factor making for a general rise in prices has thus been eliminated.

Prices have been subjected to a control of increasing intensity, culminating in the Wage Stop Decree of November 1936, which imposed a general prohibition on all price increases without the express sanction of the Reich Commissioner for the Formation of Prices. Since 1933 a large number of prices have fallen as a result of State intervention, but still more have risen. However, the net result was a rise of only 13 per cent. in the general wholesale prices index number between 1933 and March 1938.

When it is remembered that in March 1938 Germany was in a state of full employment (in the usual sense of this term), that there was an extreme scarcity of labour, and that many of her most important industries were working to capacity, with heavy overtime, this relative stabilisation of wages and prices must be regarded as a very remarkable achievement. It is certainly unique in economic history down to the present time.

A REGULATED AND DISCIPLINED ECONOMY

It is difficult to conceive of anyone who had read the preceding chapters of this book and yet failed to realise the enormous extent and complexity of State regulation and interference. Whether in the relation

of employers and their workers, or the choice by an individual wage-earner of his place of employment or even the nature of his employment, or the kind and quantity of raw material that an entrepreneur can buy, or the disposal of his produce by the peasant — in all these and a thousand other ways, the free use of individual discretion and judgment is liable to be restricted and controlled.

One of the main planks in the original (and still unaltered) programme of the National Socialist Party, drawn up by Hitler in 1920, is the slogan “*Gemeinnutz vor Eigennutz*”, i.e. the interests of the community must take precedence over the interests of the individual. Now it is probable that the citizens of every country would pay at least lip-service to the principle embodied in this slogan; but its application in practice must mean (and this again is true for every country) the subordination of the interests of the individual to what the ruling power in the State decides to be the interests of the community. In Germany the unparalleled amount of interference with personal freedom of action in the economic sphere, is justified and excused, by those in authority, by reference to this overriding principle of general policy.

It must be borne in mind that German National Socialism is opposed in principle to State management. They have in fact de-nationalised and de-municipalised many undertakings; the most conspicuous exception to this, the Hermann Goering works, being due to quite exceptional circumstances.¹ It is a cardinal tenet of the Party that the economic order should be based on private initiative and enterprise (in the sense of private ownership of the means of

¹ See above, p. 104.

production, and the individual assumption of risks) though subject to guidance and control by the State. Thus the greatest stress is laid on the value of personal achievement and of emulation as a spur to action. Nothing is more abhorrent to the Germans than the suggestion that there is any parallel between their system and that of Soviet Russia. They contend that theirs is not even, in the strict sense, a "planned economy", since it has neither a central planning body nor a central plan at the back of it.¹ It may be said, indeed, that the German economic structure suffers from some of the disadvantages and enjoys freedom from some of the defects of a more ordered and organic system. There is undoubtedly a considerable lack of co-ordination between different parts of the body economic, which gives rise to many difficulties, to loss of individual tempers and of general efficiency; and it is by no means always true that the right hand of official authority knows what the left hand is doing. Both *a priori* considerations and a knowledge of conditions inside Germany must lead to the conclusion that a modern complex economic system, such as prevails there, cannot be drastically regimented without a vast amount of friction. Indeed, to imagine that the German economic machine works with a precise clockwork efficiency would imply a very false picture of the reality. The machine creaks and groans, but nevertheless moves with surprising rapidity; nearly everybody grumbles — but everybody conforms.

It must be recognised as a major factor in the German economic recovery that on the one side there

¹ The Second Four-Year Plan comes very near to this, but still may be held to have only a limited and temporary objective.

is a central will capable of quick decision and armed with supreme authority, while on the other side there is a highly disciplined organisation of the productive forces of the whole economy.

It is not, however, the case that this organisation exists solely in order to register and carry out orders which it receives in detail and without having any voice either in their framing or their execution. There is a great deal of consultation with the industries concerned before important measures are decreed, and a very genuine attempt is made to preserve a certain measure (as much as is found possible) of individual enterprise and initiative. The major decisions on policy are finally taken at the top; for example, by Field-Marshal Goering or one of his subordinates; but the execution of the policy is left to the individual Group or Sub-Group concerned to carry out as it finds best. Even in the Groups or the Sections of the Food Estate the so-called "leadership" system (*Führerprinzip*) is dominant, and there is no possibility of a recalcitrant minority or even, in extreme cases, a majority standing out against a decision binding on all members of the Group or Section.¹ As a rule, therefore, the individual shopkeeper or manufacturer gets his instructions from the Group to which he belongs and not direct from a State official. The instructions may of course still be unwelcome, but they have at least been worked out (cf. the official reduction in prices of branded goods in 1937) within the Group, and therefore with a knowledge of the

¹ Where the Group or Section could not agree on a matter coming within its competence, this would be referred for decision to a higher authority within the economic organisation. The stringency of the "leadership" principle in industry has been a good deal modified in more recent years by the provision of rights of appeal.

technical and other considerations involved.

So far as price-fixing and marketing are concerned, the control of industry is chiefly in the hands of the cartels, and although these are subject to a certain supervision by the Groups, the latter are forbidden to take any direct part in the determination of marketing conditions and price policy. The general policy then is to make as much use as possible of the machinery of self-government in the different parts of the economic system. On the other hand there is an army of State officials to see that the innumerable Decrees and regulations are carried out and a great deal of valuable time is wasted in negotiating with them.¹ It should in justice be added that this type of official interference with the conduct of business is chiefly confined to firms engaged in foreign trade, or which require permits in order to procure raw materials. But here the "paper war" (*Papierkrieg*) flourishes at its maximum intensity. The Minister of Economics, Herr Funk, stated in a recent speech that the German export trade involves 40,000 separate transactions daily; yet for a single transaction as many as forty different forms have commonly to be filled in.

Finally, one thing remains to be said on the basis

¹ Cf. the following lament from *Die Deutsche Volkswirtschaft* for April 1938: "The head of a firm is often treated by some young junior official or departmental representative, as though he was in the dock, if any measure, which is necessary in the business interests of the firm or is due to special circumstances, offends against even a letter of some almost incomprehensible regulation. . . . It is true that the employer today is left with nothing but duties. If he fulfils them, it is taken for granted, and he gets no recognition. But woe to him if he neglects one of his duties, then there is the devil to pay, although it is scarcely possible any longer for him to fulfil all the duties which are more and more piled upon him, as though his capacity for work were inexhaustible." The same journal, for March 1938, cites the (possibly exceptional) case of a sugar factory which wanted to put up a small boiler-room with an electric power connection. Before it could do this it had to obtain permission from twelve different authorities, each of which required multiple copies of drawings and specifications.

of many pronouncements of the leaders and spokesmen of German economic policy : the existing extent of interference and regulation is officially regarded as something abnormal and temporary — the result of the emergencies of the present time. It is by no means thought of as an end in itself ; the hope is continually held out that, if and when these stresses relax, and Germany can regain a greater degree of freedom of movement in her economic life in general, it may be possible to cut away much of this vexatious and cumbersome network of decrees and regulations.

THE WITHDRAWAL OF AGRICULTURE FROM THE ORDINARY PRICING SYSTEM

The whole of German agriculture has been organised as a complete and distinct economic entity within the Food Estate. A comprehensive marketing organisation has been set up involving the control of production and distribution at every stage from the farmer to the consumer. The extent of the control varies a good deal : in the case of production it is more commonly indirect, through price regulation, expert advice and propaganda ; but in the case of distribution the control is mainly direct. The farmer receives neither a minimum nor a maximum price, but a guaranteed price for his produce, while for each succeeding stage until the produce reaches the consumer, prices are fixed on a reproduction cost basis, allowing the merchant, miller, manufacturer, retailer, etc., their costs, together with a standard rate of profit on the turnover.

In the early years, 1933 to 1934, producer prices of agricultural products were raised from the low level to which they had fallen in the slump, and then

substantially stabilised at a level which allowed the farmer what was at first a favourable remuneration, but which later declined as farming costs and prices of industrial products rose in 1936-37. The aim here has been to protect the farmer from the ordinary fluctuations of market prices and to give him economic security, so that he can carry out his main duty of supplying the basic food requirements of the German people.

Partly on racial and political grounds the peasant (and the agriculturist in general) is regarded as being in a very special degree entitled to protection of the State. Agriculture is thought of as a way of life rather than only one of many ways of earning a living ; and the peasant is taught to regard himself as the backbone and aristocracy of the nation, the custodian of the purity and vigour of the German race. The Hereditary Farms Law, with its creation of a great class of peasant holdings which are entailed from father to son and free from the possibility of mortgage indebtedness in future, is an outstanding example of this attitude.

STATE RECOGNITION OF THE RIGHT TO WORK

The National Socialist State professes to guarantee to all its citizens that it will provide them with the means to work. This does not mean that no unemployment is allowed to exist, for there are obviously seasonal variations in employment as well as the normal turnover of labour and personal factors which can lead to a man being thrown out of work. But it does mean that the State will not tolerate the existence of long-term unemployment on a large scale. Rather

than permit this the State will itself provide alternative employment in some form — if not “regular” then “substitute” employment.

As a corollary to this recognition of the right to work the State imposes the duty to work, and this is a very far-reaching obligation. It can mean that the State has the right to lay down the conditions under which a man shall work. The State can say to a man: You shall work in this occupation; you shall work for ten hours and for these wages; and you shall work where you are told to work, even though it is a different district from that in which you are now living.

It is important here to make the distinction between policy under normal conditions and policy under conditions of great national emergency, such as war or the imminent threat of war. The significance of this distinction can be illustrated from German history since 1933.

During 1933 and 1934, when there was extremely heavy unemployment, very large numbers of men (800,000 on the average throughout 1934) were employed on emergency relief works and in the Labour Service, where they worked hard and received only pocket-money and their keep and lodging — the latter often under canvas. If the work had not been provided for them they would have been receiving a very meagre relief allowance at home for doing nothing. They quite possibly were rather better off (especially from the physical point of view) than if they had remained at home; but it is an essential point that they did not receive ordinary wages in return for their labour. The willingness of the unemployed to work under these conditions (alternatively

the power of the State to make them do so) was thus a factor of great importance in the whole situation.¹

During the years 1935 to the end of 1937, the Labour Service (about 200,000 men) was retained, not as a form of substitute employment, but as a training in physical work for young men; on the other hand, emergency relief work by degrees dwindled into insignificance as the workers were absorbed into normal employment. Now, during this period, apart from occupational guidance which was not coercive, and some restrictions affecting certain categories of labour, it is broadly true to say that there was no interference with the freedom of the vast mass of individual workers either to choose their occupations or their place of employment. Basic wage rates had been stabilised at their 1933-34 level, but there was nothing to prevent the employer from paying more, or the worker from changing his employment if he thought he could get higher wages elsewhere. Strikes, it is true, were prohibited and disputes were required to be submitted for compulsory arbitration; but in place of the old trade unions, which had been abolished, there was the Labour Front which was very active in many directions in defence of the workers' interests; and there was a form of workers' representation² in all save the very small factories. There was also that interesting innovation, the Courts of Social Honour (*Soziale Ehrengerichte*) whose influence is not

¹ It must be remembered that insurance against unemployment in Germany only began in 1927, and that its finance broke down completely in the depression of 1931-32, with the result that the great majority of all the six million unemployed were being maintained on an extremely exiguous scale of poor relief.

² Cf. Chapter IV, pp. 198-9.

to be measured merely by the number of cases actually brought before them.¹

Thus from 1935 to 1937 we do not get the impression of highly abnormal conditions from the point of view of the position of labour in a modern industrial system ; and it would not be in accordance with the facts to represent the German worker at this time as little better than a serf with no liberty of action or movement.

Considerable changes took place in the relations between the State and labour in the summer of 1938, and though it is, strictly speaking, outside the period covered by this book, their great importance may be held to justify some reference to these most recent developments. Owing to the increase in political tension in Europe as a result of the Czechoslovak dispute, the German Government decided to fortify with all possible speed the Western frontier of Germany and to speed up rearmament in general. It must be remembered that Germany was already in a state of full employment and that her available reserves of labour had been exhausted. A Decree was issued on June 28, 1938, empowering the State to call upon any citizen in the country to perform work of urgent national importance. Under this Decree hundreds of thousands of men were drafted from their normal occupations, *e.g.* as builders in Berlin and elsewhere or as road-workers, to work on the new fortifications.² It was laid down, however, that the remuneration of this conscripted labour should be not less than that which the men previously had been earning, and in the administration of the

¹ Cf. Chapter IV, p. 200.

² This conscripted labour was demobilised in October 1938.

measures it was arranged that those called up should be almost entirely unmarried men. Legally the decree was held to represent *Arbeitspflicht* but not *Berufszwang*. This meant that there was a compulsion to work but not a statutory interference with the individual's normal choice of occupation — the men called up were deemed to be "seconded" from their ordinary work for a temporary period of national emergency, the presumption being that when the emergency was over they would return to their usual employment. By another important decree the functions of the State-appointed Trustees of Labour were extended, and they were empowered to issue binding orders to cover all wages and labour conditions, whereas previously they had been concerned only with minimum wages and conditions. This power, however, was confined to industries which were scheduled by the Minister of Labour; and down to the present (October 1938) it has only been applied to the building and metal industries.

It is clear that the State in Germany has now assumed virtually unlimited powers over German labour. Such powers are no doubt inherent in the sovereignty of the State; but the important distinction in this case is that they have been legally assumed during a period of peace and will very likely continue to remain in force on paper. Whether this means that in future these powers will be used as a normal thing, so that the individual worker in Germany henceforward is deprived of his freedom of choice of occupation and place of work, is a question which can only be answered by the event. Current comment in German economic periodicals would seem to show that an indefinite prolongation of these conditions is

not expected, and would certainly not be welcomed, by responsible opinion in Germany.

INDEPENDENCE OF FOREIGN SOURCES OF SUPPLY OF ESSENTIAL FOODSTUFFS AND RAW MATERIALS

German policy in this matter is to become self-sufficing in those foodstuffs and raw materials for which she has an inelastic demand, or which, if they were cut off in the case of war, or as a means of political or economic pressure in time of peace, would bring disaster to the State. There is, however, general agreement in Germany that it is not desired, even were it feasible, to make the country completely self-sufficing so that she ceased to have any foreign trade. The utmost importance is attached to increasing the volume of German exports, in order to make it possible for her to raise the standard of living of her people by increasing her imports, subject to the general proviso that these imports should be of a type which could be dispensed with in time of war without endangering the security of the country.

So far as raw materials are concerned, the policy is directed to changing the raw-material basis of industry as far as possible from products which are scarce inside Germany, or which have to be imported, to products which can be obtained within the German borders or from contiguous countries with which she is not likely to be engaged in war. Thus plastic materials take the place of iron and other metals ; the output of aluminium, magnesium and low-grade iron ores is being greatly expanded ; synthetic rubber replaces natural products, and staple fibre cotton and wool. For the time being this development is a heavy

additional burden to the economic system of the country, both because it adds to investment demands at a time when the capital and savings market is already severely strained, and because it increases the need for labour which is now the most serious bottleneck or limiting factor in the economy. The Plan may fail, but if it is a failure this does not imply economic disaster for the country, at least in the short period ; it would mean that the hopes of ultimately raising the standard of living by this means (while maintaining security) had been disappointed, and the extra cost must be added to the economic burden thrown on the community as a whole by what Professor Pigou in his *Political Economy of War* has called "the shadow of war".

THE DECENTRALISATION OF INDUSTRY AND POPULATION IN GERMANY

The Germans hold that the ordinary industrial town, as it had grown up in the sixty or seventy years before 1933, with its many-storied tenement dwellings in which each family occupies a flat or one or two rooms, is a monstrosity. They desire to replace these urban agglomerations by a decentralised type of industry, small industrial towns being scattered about the countryside. The ideal before them is that each worker should live in his own house with a garden or allotment ; and special facilities in many different forms are being made available to enable him to buy his house by payments spread over a long term of years.

Partly for these reasons, and partly on military grounds, most of the new undertakings built in con-

nection with the Second Four-Year Plan have been placed in districts far removed from the great industrial centres, thereby incidentally creating new problems and difficulties, especially for agriculture, which are discussed elsewhere.¹

All over Germany regional and town planning has been developed to a high degree along very efficient lines. There is a Central Planning Board in Berlin, a Reich Institute, linked up with all the universities, for conducting research into problems of planning, and regional planning authorities in every State of the Reich. The latter must be consulted before a road can be constructed, a factory built or a housing scheme approved, while the Central Board is concerned with laying down general lines of policy for the whole country. An immense amount of activity is going on in this field ;² it represents one of the less known but most constructive aspects of modern Germany, and is one that may well provide valuable lessons for other countries.

While the greater part of the housing activity in Germany since 1933 has taken the form of the provision of houses in the large cities, where the housing shortage has been most acute, there has been a considerable amount of construction of small family houses and of suburban and country housing settlements — a work in which the Labour Front has played an active rôle. The promotion of these settlements is an integral part of the Second Four-Year Plan, especially in connection with the establishment of the new factories. It has been pointed out by

¹ See above, pp. 114-8.

² Cf. "Die Arbeit der Reichsstelle für Raumordnung", in *Raumforschung und Raumordnung*, No. 7, July 1938.

critics of Germany that such settlements, especially when they are financed by the undertakings in which a man is employed, as is frequently the case now in Germany, are open to the grave objection that they increase the dependence of the worker upon his employer. While it is certainly true that they will have this effect, its ultimate significance must largely depend upon the course of labour policy and industrial relations as a whole in Germany. On one interpretation the whole scheme is a skilful device to enslave and exploit the worker, while on another it is a measure of constructive social reform within the frame-work of a capitalist society.

Down to the present time the amount of progress that has been made with such ambitious proposals as the migration of industries from the big cities to the country, and with the provision of rural settlements to enable the industrial worker to share in the life of the countryside, has not been large. They remain, however, an essential part of National Socialist economic doctrine, and are important as an indication of probable future trends.

A consideration of the "basic features" of the National Socialist economic system shows clearly the extent of the gulf that separates it from the relatively free economic systems of such countries as Great Britain, France and the United States. It is incumbent on those who would draw conclusions from the results on employment and activity of Germany's economic policy to reflect on the institutional environment in which these results have been achieved. Despite incoherencies in detail, the system as a whole is coherent and mutually interdependent. This is not

to deny that other countries can learn from or imitate with advantage certain of the features of the National Socialist economy, but the greatest caution must be observed in applying the experience of Germany to countries with a different type of economic and institutional background.

CHAPTER VI

GERMANY IN FULL EMPLOYMENT: SOME PROBLEMS OF THE PRESENT AND THE FUTURE

IN recent discussions of the trade cycle a state of full employment has come to be regarded as a sort of economists' Mecca — the goal to which all endeavours of monetary and economic policy should be directed. Economic conditions, however, are never static, and judging from the German experience a state of full employment gives rise to the emergence of new problems and difficulties of great complexity.

THE ALLOCATION OF RESOURCES BETWEEN ALTERNATIVE USES, AND THE BALANCE OF THE ECONOMIC SYSTEM

In the early days of the German economic revival, when there was an abundance of idle factors of production available but a shortage of effective demand, it could be held with considerable justification that any employment was better than no employment. Every kind of device was employed to draw people into employment, and some of the works which were carried out had little or no justification other than the fact that, directly and indirectly, they increased the volume of employment. From 1935 to the end of 1936 rearmament contributed the greatest stimulus to the expansion of employment, output and incomes, and throughout this period it was the growth of investment which created the incomes by means of

which the works, of whatever kind, were carried out. In the absence of the increase in investment much of the incomes themselves would not have come into existence. But as soon as the country reached a state of full employment in the production goods industries the situation altered fundamentally. Total income continued to grow as a result of technical progress and improvements and of further expansion in the consumption goods industries, which were not working to capacity; but, apart from this, further investment could not raise current incomes. Moreover, from then on, it became true that more of A could only be produced at the expense of less of B, and it behoved the State to scrutinise much more closely than in the past the uses to which investment and resources in general were put.

Judging from contemporary comment there has been some misunderstanding of the rôle which rearmament and other unproductive investment has played in the German recovery. Unfortunately the term productive, in this as in most other connotations,¹ is a slippery one, and it is very hard to know where a line is to be drawn. An investment may be productive in the long run, but not at the moment, or its productivity may be largely indirect. Good roads yield no visible income, but their existence may help to maintain activity in the motor-car industry, give employment to inns and hotels, open up new parts of the country, relieve pressure on the railways, and so on. The Germans say that their new motor roads² (along which houses are not allowed to be built) are going to have an important effect in diminishing

¹ Cf. L. M. Fraser, *Economic Thought and Language*, pp. 178-84.

² These roads also obviously serve important military purposes.

future capital expenditure on house construction. Heavy long distance traffic is diverted from the towns and the ordinary roads to the motor-roads, with the result that damage to houses from vibration is much reduced ; there is also a very material saving in the petrol, oil and tyre consumption of cars. Most people, if pressed to define what they meant by a productive investment, would reply that an investment is productive if it yields a return which increases, sooner or later, the real income or satisfaction of the community. On the usual interpretation of this definition, a lipstick factory is productive, and so is a park or a civilian aerodrome ; but a barracks or a military aerodrome are unproductive. It would be agreed that the latter were necessary (or held to be so by the Government) for the security of the nation ; but the investment would be regarded as unproductive, because its fruits could not be enjoyed by the members of the community in their individual capacity as consumers while exercising their normal freedom of choice. For our present purposes let us adopt this popular definition, while admitting the anomalies and inconsistencies (cf. compulsory free education) to which it gives rise.

There can be no doubt that rearmament, which was so great a factor in raising Germany to full employment by 1937¹ was "unproductive" in this sense. On the one hand it is true that the investment contributed to the creation of the incomes and thus

¹ Most of the employment creation programmes to the end of 1934 were directly or indirectly productive, and this is also true of a large amount of investment which continued in 1935-36 side by side with rearmament. At the same time it must be remembered that roads, or houses which may not be able to be let at a full rental, are much less "financially" productive than, say, investment which increases the earning capacity of the railways; and this is important from the point of view of the budget.

the tax revenue and savings from which it could be financed, but, on the other, the standard of living at some later date would have been higher if this investment had been put to productive uses.

Germany had almost reached the stage of full employment in the production goods industries at the end of 1936 when the Second Four-Year Plan was announced, involving a further intensification of public investment. In the absence of any reliable data it is impossible to make an estimate of the relative shares in total investment which were represented by rearmament, the Second Four-Year Plan, and other purposes from the beginning of 1937 to the end of March 1938.

German economists in the spring of 1938 were strongly inclined to the opinion that the investment demands from the Four-Year Plan, especially for the construction of new raw material works, such as the Herman Goering low-grade iron-ore works in the Salzgitter district, were more important than the rearmament demands.¹ They pointed out that by the middle of 1937 the major part of initial capital expenditure for rearmament was believed to have been completed; most of the barracks and aerodromes and munition factories were already built, while the current output of munition factories could not absorb a very large part of the national income. However this may be, it is a fact that investment as a whole increased by about the same absolute amount as it had increased in previous years, and that it reached the very high proportion of 22·5 per cent. of the entire national income in 1937.

The Second Four-Year Plan for the expansion of

¹ It may be noted that General Goering in a speech on the Second Four-Year Plan in September 1937 said: "Armaments are only requiring a small proportion of German labour — a proportion which is not of decisive importance for the German economy". But the facts cannot be verified.

the output of domestic raw materials was "productive" in the sense of the above definition. But it is well known and universally admitted in Germany that the costs of production of most of the new materials are greater than the costs of the normal products, and they require a larger volume of labour per unit of output than the latter. Resources employed in this way were, therefore, less productive than if they had been used, for example, to make exports with which to acquire cotton, wool and rubber, and the case becomes stronger if account is taken of differences of quality. Nevertheless it may be doubted whether the fact of the lower productivity of these investments was so important a fact in retarding the rise in the standard of living¹ as the mere fact of the magnitude of the investment in relation to the size of the national income. While investment is actually taking place, the effects on available income (assuming full employment) are the same whether the investment itself is productive or unproductive, the distinction only becomes important after the investment has been completed and the fruits (if any) can be enjoyed.² If there are no fruits and the future national income has not been increased as a result of the investment, then there is no offsetting yield to compensate for any interest charges that may have to be met or for a sinking fund to provide for renewal. But the important point is that the burden of invest-

¹ There is, of course, no question of disputing the fact that the standard of living in 1937 was considerably higher than in 1933; but it certainly did not rise in the measure that might have been expected from the increase in productivity and technical progress, and from the attainment of a state of full employment.

² It is actually easier (above all in a *laissez-faire* economy) to maintain full employment if there are no fruits, since the problem does not then arise of marketing the products of investment.

ment (like the real economic costs of war) is borne by those living at the time when it is made. It may sound a paradox, but it is true that one of Germany's greatest difficulties in the last eighteen months has lain in the necessity for sterilising a large part of the incomes which have been generated as a result of reaching full employment. For a variety of reasons — the general post-war contraction of international trade, her own exchange restrictions, her price level, the loss of her foreign capital and her colonies, her foreign debts—Germany cannot hope, *under existing conditions*, to finance the volume of imports which would correspond even to the present level of incomes if these were all expended on consumable commodities. Above all, in textiles and food Germany is still partially dependent on foreign supplies, and if she is to avoid rationing on a large scale she must limit purchasing power. It is largely for this reason that she has maintained the tax on wages and taxation in general at the very high rate to which they had been raised in 1931–32; that saving is encouraged by all the forces of propaganda; that dividends are restricted and wages kept down. At first sight it strikes the foreign observer as anomalous that lottery tickets (50 pfennigs each) should be peddled all day long in German cities “for the provision of employment”, but it all helps to absorb income, and the proceeds can be used for such purposes as the vast new Party buildings which are being erected in Nuremberg and elsewhere. The new cheap motor car (*Volkswagen*) which is expected to be on the market soon at a price of 990 RM.,¹ equipped with Buna

¹ An extensive organisation has already been set up throughout Germany for receiving weekly savings to be applied to the purchase of the *Volkswagen*.

tyres, has for an important part of its *raison d'être* the diversion of a large slice of family incomes into such directions as running expenditure and travel within Germany, thus limiting the amount which can be spent on food and clothes. The experience of the United States in this respect has not been lost on Germany.

One important exception, however, must be made to the general conclusion that it was the size even more than the kind of investment which was responsible in 1937-38 for limiting the amount of income which was available for consumption purposes — namely, housing. If less capital and labour had been applied to purposes of public construction, whether for armaments or raw material factories, more would have been available for working-class houses ; houses being the notable example of something which is at once an investment good and a consumption good.

Looking to the future, much will depend upon the progress of the Second Four-Year Plan and upon whether Germany can secure an equilibrium or balance between the different parts of her economic system. A managed economy has the advantage over a free economy of a central will, but it suffers from the disadvantage, *inter alia*, that it lacks the elasticity which the latter system derives from the existence of many independent units, some of which are likely to take different views of the situation, present and to come. When a managed economy commits an error, it can only be rectified by modifying or reversing the decision, and in the meantime a great deal of harm may have been done. All its mistakes are "one-way" mistakes. As against this, it must not be overlooked that, so long as Germany can maintain full employment (thereby reaping the bene-

fits of technical progress), there are considerable wastes of unproductive investment which she can "afford" by comparison with a country where there is heavy unemployment and a large volume of idle resources. There is also a big distinction to be drawn between the "ideal" distribution of resources which in theory would exist under a condition of all round perfect competition, and the actual distribution under conditions of imperfect competition and more or less uncontrolled monopolies.

Out of the many economic problems which confront Germany at the present time, and which raise the problems of balance between different sides of the German economy, there are four of which something may be said here: (1) the relation between the production goods industries and the consumption goods industries; (2) the relative shares of the national income going to labour and to profits; (3) the comparative development and well-being of large and small-scale industry; (4) the supply of academically trained ability.

(1) From what has been said already, it will have been gathered that during the economic recovery there was a very one-sided development of the production goods industries. Even in March 1938 the consumption goods industries were not working to capacity, and earnings there were low and hours still relatively short. Any large increase in the standard of living of the German people must depend upon the expansion of these latter industries. The ease or difficulty with which this can be done is in turn largely a matter of the extent to which the industries now engaged in producing munitions and public construction of all sorts can be diverted to producing

consumption goods. The most obvious case of this possibility is housing; for a great deal of public construction is directly competitive with houses which are urgently needed and cannot be built owing to lack of labour and materials. It should further be possible to increase the volume of resources applied to the export industries and so to obtain more imports, though the degree to which this can be done will partly depend upon the elasticity of the foreign demand for German exports. As is pointed out below, there should be no difficulty in increasing the domestic *demand* for consumption goods, by lowering the taxation of wages, but there still will be a problem of adapting resources, which have been devoted to other purposes, to the production of goods which can form part of the consumer's income.

The Germans themselves are pinning a great deal of their hopes for a rise in the standard of living upon the success of the Second Four-Year Plan for the production of domestic raw materials. They hope to be able to diminish the proportion of the national income devoted to capital goods and to increase the proportion available for consumption, when they have assured themselves of an adequate supply of the essential raw materials. At the moment the costs of the new products are as a rule appreciably greater than the cost of the former products they are to displace.¹ Bearing in mind, however, the history of

¹ The difference, in many cases, is less than is popularly supposed. Thus the price of staple fibre, which was 2.38 RM. per kg. in 1935, was reduced to 1.25-1.45 RM. per kg. in September 1937, at which price it was below the world price of wool in April 1938 and only just above the price of Egyptian cotton purchased under compensation agreements (1.21 RM. per kg.) in October 1937. In the case of domestically produced petrol the price in April 1938 was 39 pfennigs per litre as compared with the English price of 21.6 pfennigs per litre at the nominal rate of exchange and 27.2 pfennigs at the rate of 20 RM.=£1, which corresponds much more closely than the

sugar beet, artificial silk, synthetic nitrogen and similar products, it would be unwise to draw pessimistic conclusions from early difficulties or technical failures, or to assume that high costs of production will remain when production has got beyond the experimental stage and is being developed on a large scale. The Second Four-Year Plan is promising the masses "jam to-morrow" in return for "bread and scrape" to-day. It remains to be seen how far this promise will be fulfilled.

The difficulties mentioned in the foregoing paragraphs are of a technical character, but there is a further problem to be considered. Given full employment in Germany, an expansion of the consumption goods industries, by a greater degree than corresponds merely to technical progress in these industries, can only take place *at the expense* of the production goods industries. An expansion of the former must lead to a contraction of the latter. The question arises whether the constellation of economic and political power in Germany is such that a transfer of this type is possible or will be allowed to take place. The whole recovery up to now has favoured the production goods industries, and Marshal Goering, himself the official head of the great Hermann Goering iron-works now being constructed for an output requiring 150,000 workers, may have commitments to the big industrialists which cannot easily be liquidated. Economic power is something which has to be reckoned with, even in a dictatorship.¹

nominal rate to purchasing power parity. According to information supplied to the writer, the above prices of domestically produced raw materials are cost prices, not subsidised prices. Cf. G. Mackenroth, "Bericht über den Vierjahresplan", in *Jahrbücher für Nationalökonomie und Statistik*, 1938, vol. 148, pp. 697-726.

¹ For some discussion of this question see below, pp. 263-5.

(2) National Socialism is not only nationalist, it is also socialist within the limits of its own interpretation of the term. It has, moreover, its right- and left-wings, and although the events of June 30, 1934, put a drastic check upon the aspirations of the more extreme left-wing elements, there still is a radical section of the Party which exercises a considerable amount of influence over policy. Now, in spite of high direct taxation and of the fact that levies are placed on industrial profits in order to subsidise exports, actual profits under existing conditions are very high. Already in 1936 the share of profits (excluding undistributed company profits) in the national income had risen from 13·7 per cent. in 1933 to 16·0 per cent. in 1936, at which date the percentage was the same as in 1929, while in 1937 profits had increased to 16·9 per cent. of the national income. On the other side the wages of labour have maintained a practically constant proportion of the national income and individual wage rates have been stabilised by Government intervention. Thus the contrast between the mass of the people and that of the wealthy employer class has been accentuated. This is not "socialism", even as this term is understood by the great majority of the National Socialist Party,¹ and still less does it correspond to the desires and aspirations of the more radical wing of that Party. It would not be safe to assume that this is a trend which will be allowed to continue in the future. The recent rise in the corpora-

¹ Cf. The following editorial comment in *Die Deutsche Volkswirtschaft* (a strongly Party journal) for June 1937: "We ought to change taxation so that less of it falls on the broad shoulders of the mass of the population and more on the profits of employers and undertakings. . . . An accumulation of wealth is going on now which is of a capitalist character and which in the long run is undesirable."

tion tax from 30 per cent.¹ of gross profits to 35 per cent. for 1938 and 40 per cent. for 1939 and 1940, which was the chief cause of a somewhat dramatic fall in share values (especially of the big armament firms) on the Berlin Stock Exchange² in the summer of 1938, is an indication of the direction which public policy seems likely to take increasingly in future. The dilemma has been, hitherto, that large profits were necessary in industry in order that enterprises should as far as possible finance their own capital expansion. There are also limits during a period of rapid economic recovery to the extent to which taxation can be increased without checking enterprise. Higher direct taxation is not, of course, the only method by which individual profits can be restricted; there is the alternative method of lowering prices and reducing profit margins, a method which was adopted on a fairly considerable scale in 1937 and the beginning of 1938. It was then believed that these measures were only the prelude to a much more extensive development on these lines in future. Finally, there is a third important method of regulating profits, by influencing the way in which they are utilised, which is extensively practised in Germany — the profits when made are “steered” into the desired direction, *e.g.* subscriptions

¹ The corporation tax was raised from 20 per cent. to 30 per cent. in December 1936. The yield in 1937 was 1,553 million RM. as compared with 608 million RM. in the boom year 1928–29.

² The German Stock Exchange “slump” was given a most exaggerated amount of attention in the foreign Press. The index number of share prices fell only from 115 in the middle of April 1938 (1934–36=100) to 102·3 in the middle of August 1938, while the much more important price of Government bonds was practically unaltered. Share prices fell chiefly because of the corporation tax and rumours of still higher direct taxation in future, but partly also because of sales of shares by Jewish holders and sales by manufacturers who were afraid that the new method of finance might make them short of cash. The whole movement was devoid of significance for the stability of the German economic system in general.

to public loans, subsidies for the export trades, contributions to the *Winterhilfe*, works welfare schemes, etc.

(3) The course of events has dealt even more unkindly with the third problem referred to above — the relation between large- and small-scale industry. The protection of the small man against the big has constituted from the outset a very important point in the National Socialist economic programme. But the recovery measures, based as they have been on great national works and rearmament, have inevitably favoured the big firms, which alone were in a position to carry out orders on so large a scale. The position in this respect has been aggravated by the Second Four-Year Plan. A study of the columns of the *Deutsche Allgemeine Handwerkszeitung* for the year 1937 reveals bitter complaints of the prevailing tendency for contracts for the construction of the new raw-material factories in the country districts to be given to the big firms in Berlin and other cities. We find the editor of this journal complaining that not merely are local firms ignored in the planning of orders, but they suffer further injury from the loss of their skilled workers who are attracted away by the offer of much higher wages than their previous employers could afford to pay. Apart from this tendency, the small men, and notably the handicraft workers, have been hit by the rationing of raw materials. Being both small and numerous it is difficult for them to obtain the regular deliveries which are so essential for them, as they can hold but small stocks; while even the necessity of filling up innumerable forms is a serious matter in their case. It has also been more difficult for the smaller works than for the larger ones to effect

the technical changes in methods resulting from changes in the types of raw materials. Again, new and rising firms tend to be prejudiced owing to the smallness of their original or basic quotas. In these and many other ways, large-scale industry has been favoured.¹ It is true that attempts have been made, and are being made, to counteract this development and that it is recognised as an evil to be fought against, but the whole trend of modern methods of production is working the other way, and in many branches it would seem probable that it is a losing battle which is being waged on behalf of the small man. Whether avoidable or not, there is here a certain divergence between the principle and the practice of the National Socialist State.

(4) At the outset of the National Socialist régime there was an immense amount of overcrowding of the German Universities and Technical Colleges, as well as unemployment of University graduates.² The new Government promptly took drastic and effective measures to diminish the number of new entrants to the Universities. To-day, however, the situation is reversed and there is a scarcity of academically trained technicians, including those with such qualifications as *Diplom Volkswirt* and *Diplom Landwirt*.³ The Universities as a whole are only sparsely and inadequately attended and there is a lack of young teachers. The main causes of this remarkable change have been

¹ Against this tendency must be set the beneficial effects of the economic revival. The number of industrial firms increased from 206,000 in 1932 to 254,000 in 1936, and many of these must have been small firms; but the figures for 1937 and 1938 may tell a different story.

² Cf. W. Kotschnig, *Unemployment in the Learned Professions: An International Study*. His figures show that there were 130,000 students in German institutions of higher learning in 1932, compared with 89,000 in 1925 and 77,000 in 1913.

³ The following figures show how considerable has been the decline

the rival attractions of industry, the State services and Party organisations, and above all the Officer Corps¹ in the Army and the Air Force, which are diverting the youth of the country away from the lengthy, laborious and (for German conditions) expensive academic career. Already the supply of those with good technical qualifications is insufficient in many cases to make good the wastage due to death, retirement, etc., and the shortage will become much more acute in the near future. Official utterances show that the Government is seriously alarmed at the prospect, and endeavours are being made, by shortening the length of courses, by scholarships, by encouraging the entry of women, and in other ways, to remedy the situation. But a satisfactory solution, which will increase the quantity without leading to a deterioration in the quality, is not going to be easy to find so long as general activity remains at its present high level. So long, also, as Jews are excluded from the Universities, the Germans are voluntarily depriving themselves of a very important potential supply of academically trained ability.

in the numbers of those studying technical subjects at the German Universities:

	Building Engineers	Architects	Machine Construc- tion	Electrical Engineer- ing	Ship and Aeroplane Construc- tion	Chemistry	Mining and Blast Furnace Technique
1929	2,582	2,000	5,868	3,441	513	3,200	1,340
1933	2,897	2,350	4,016	2,808	320	3,100	750
1937	1,439	1,040	2,146	1,396	314	1,600	372

¹ Out of 18,000 boys who in 1937 passed the *Abitur* (examination qualifying for admission to a University), 10,000 "opted" for the officer's calling (*Die Deutsche Volkswirtschaft*, April 3, 1938). The total number of "Abiturients" in 1937 (43,000) was nearly doubled by the abolition of the top form in all schools, resulting in the concentration of two years' supply in a single year.

THE MAINTENANCE OF WAGE AND PRICE STABILITY

An important problem, which is already becoming acute, is whether it is possible, even in a country so drastically regimented and ordered as Germany, to continue to maintain stable wages and prices under conditions of full employment.

The position down to March 1938 was that minimum hourly wage rates had been kept substantially unchanged at their 1933 level. Now there was nothing "normal" about the 1933 level itself, for it represented the outcome of a period of rapid deflation of wages as a result of the intense depression of 1931-32. The extent to which relative wages fell depended partly upon the extent to which any given branch of industry was hit by the slump, and partly upon the bargaining strength of the trade unions. In general the production goods industries, and especially building, suffered the greatest relative wage cuts. The process of revival has notably reversed the situation so far as the demand for labour is concerned, but basic rates remain as before. It is true, of course, that the average earnings of those employed in the industries where there is great activity have much increased — the miner who was working only 19 shifts per month in 1932, but 26 shifts in 1938, had a much more satisfactory pay envelope to bring home in the later year. But even in the production goods industries there were bound to be many cases where the employer did not need to offer more than the tariff minimum, and the minimum was all that he was legally required to pay. In building, in particular, the low minimum rates present great anomalies between individuals, and are a source of friction and

discontent. The power given in August 1938 to the Trustees of Labour to fix all wages and conditions of labour (maximum and not merely minimum rates) is an indication of the strain under which the wage structure is working at the present time. It seems probable that a revision of relative wage rates is an imperative necessity and one which cannot be long delayed.¹ It is likely to be a difficult matter to carry through this adjustment without destroying the stability of the wage level as a whole, which is one of the bases of Germany's economic system.

The price level is still subject to the overriding provisions of the Price Stop Decree of September 1936. But no one realises better than the Germans themselves, as can be seen from the numerous utterances of the Commissioner for the Formation of Prices, that in the long run it is impossible to maintain a rigid and inflexible price structure. In practice it is well known that the prices of many articles are rising in Germany, some with the consent of the Commissioner, and some without that consent. The remarkable thing is that, in spite of this inevitable elasticity, the general pattern of the price level as a whole still presents the appearance of stability, or at most of a very slow and gradual rise. But here, as in the case of wages, the system is straining at its bonds, and if the wage sector should give way, it would seem impossible but that the price sector should follow.

There is, however, a wider issue than the possible effects of wage changes upon the level of prices. Under existing conditions an unprecedented propor-

¹ One of the objects of the new power of the Labour Trustees is to enable them to bring about necessary changes in relative wage rates.

tion of the national income is being devoted to investment, and, as we have seen earlier,¹ the finance of investment by credit creation appeared to have reached by March 1938 a stage at which the danger arose that further expansion by this means would lead to a genuine inflation of incomes and prices. If the volume of investment outruns the amount of saving which the public as a whole can be induced, directly or indirectly, to provide out of its income, then either an income and price inflation must result, or, if prices and wages are kept down by State intervention, scarcities must ensue leading to the formation of queues and eventual rationing of consumption.²

The problem of finding a sufficiency of saving did not arise seriously during the early stages of revival owing to the large amount of unemployment and idle resources in general, but later, and especially since the middle of 1937, the amount of saving performed has been one limiting factor restricting the amount of investment which could be carried out without disrupting the equilibrium of the system. During the past year (1937-38) there has in fact been a great increase both in investment and saving, and it is a matter of some interest and importance to consider where the savings have come from.

In surveying the sources from which saving has been drawn in Germany, the first place is taken by taxation and social insurance contributions, which in

¹ See above, pp. 128-9.

² It is not intended by the wording of this sentence to dispute the formal equality through time of the amount of investment actually accomplished and the total amount of saving done. What is at issue here is the condition under which this equality can be secured without upsetting the equilibrium between the volume of money incomes and the volume of consumption goods available for purchase at the level of prices ruling.

1937 together amounted to 27·6 per cent of the national income.¹ To this must be added the very large amount of self-financing done by industry, which is so greatly stimulated by the Dividends Limitation Law. Here the saving and investment are directly correlated, and while most of the investment has taken the form of expansion of plant or subscription to public loans, a good deal has gone into what may be termed consumption investment — the provision of canteens, wash places, employees' houses and similar welfare schemes.² Similar considerations also have led to an increase in the amounts written off for depreciation, which have latterly been largely in excess of that "normal depreciation" which is allowed as an expense under the Income Tax Law. Actual replacements, moreover, have to a considerable extent been hindered by difficulties in obtaining deliveries of machines, etc. Life insurance premiums, instalments on house purchase, the repayment of marriage loans and the general liquidation of past indebtedness, together account for a large volume of saving. Local authorities have been entirely excluded from the credit market since 1931 and between 1934-35 and 1936-37 in fact repaid debt to the extent of 1 milliard RM. besides accumulating reserves out of revenue to the extent of 1·75 milliard marks. The fact that profits as a whole have increased disproportionately, especially in the last two years, has increased the share of those wealthier classes which tend automatically to save a larger amount out of their

¹ Cf. Statistical Appendix, Table X.

² Judging by the aggregate expenditure (786 million RM.) for these purposes of the 84,000 firms which in 1938 entered for the "model business" competition, the total must have been very considerable. See above, p. 196.

income than is the case with the wage-earning class ; but taking into account the control of profit margins, the rise in the corporation tax, the highly progressive rate of income tax and the effects of the Dividends Limitation Law, it is doubtful whether this factor can account for a great deal of additional saving. Finally, over and above all the aforementioned sources comes the very large volume of direct money savings of the general public which is placed with the banks, savings banks and other financial institutions, and by them largely, though by no means exclusively, invested in public loans. Table XVII on page 123, which gives an indication of the magnitude of these savings, also shows that there was a considerable increase in private ownership of bonds and shares. In view of the stability of wage rates and of the heavy burden of taxes and social contributions, it is remarkable that there should have been so large a volume of voluntary savings in addition.

There is one explanation which, though far-fetched, must be considered. If it were true that there has existed in Germany a serious shortage of the cheaper goods which the mass of the people wish to buy, this might provide a part of the solution. For, failing to find a sufficient supply of the kind of goods on which they wish to spend their incomes, they might prefer to save for a more plentiful future ; at the same time, in so far as they are constrained (in the absence of cheaper qualities) to buy dearer articles on which profits are likely to be greater, this will increase the share of profits in the national income and so the total amount of saving. The former of these two possibilities would arise in its extreme form if there were a general system of

rationing of consumption ; this, however, does not exist in Germany, the only really important example of rationing being butter in some parts of the country, nor is it the case that queues of customers are lined up before provision or any other stores. But neither is there any evidence of a general shortage of available consumption goods. No one who has seen the well-stocked shops of any German town, whether in the richer or the poorer quarters, could accept the suggestion that the German people are constrained to save because they cannot procure the kind of things which they wish to buy. There have been temporary shortages of individual foodstuffs, but no shortage of food in general ; clothing is relatively expensive, but the German wage-earner, judged by English standards, looks notably well-dressed ; there is an abundance of all the ordinary household requisites, and Woolworth stores are to be found in most towns, though their prices range up to 2.50 RM. As to the latter of the above possibilities (the potential results of a transfer of demand to the dearer qualities) it seems very unlikely that the quantitative effect of this in increasing saving could be appreciable.

The real explanation would seem to lie in the saving habits of the German people themselves. The post-war experience has shown that the wiping-out of all the accumulated money wealth of the people had left in their minds a tremendous desire to reconstitute their savings at the earliest opportunity. In 1913 the total volume of deposits in savings banks amounted to 19.6 milliard marks, and these were the fruits of half a century of economic progress in time of peace. After the stabilisation of the mark, savings bank deposits rose from 595 million RM. in 1924 to

12.9¹ milliard RM. in 1930. Even allowing for the lower value of money in 1930 as compared with 1913, this was an astonishing achievement in only six years of economic revival. Since 1933, the policy of price stability, the belief in the general security of the economic system, and the rapidity and intensity of the recovery from the depression of 1931-32, which had wiped out many savings, account for the rate at which accumulation was proceeding during these years.² Propaganda no doubt also contributed, but was probably not a factor of primary importance. That the continuance of savings on the scale on which they are now being formed may lead to difficulties of an opposite character — *i.e.* of saving outrunning the possibilities of profitable investment, is another problem, which is discussed in the next section.

It remains to add that in considering the way in which the equilibrium of the economic system from this point of view was maintained down to March 1938, account must be taken, in the first place, of the fact that the German authorities were aware of what they were doing and did adjust the volume of investment to the volume of saving. Secondly, down to March 1938 there was not completely "full" employment in all industries; output and employment were increasing all the time in both production and consumption goods industries. It was still the case that hours of work were comparatively short in the consumption goods industries and that plant was not being used to full capacity, partly owing to the shortage

¹ In this total, however, are included former savings in marks which were re-valued to the extent of between 1 and 2 milliard RM.

² Deposits in the savings banks increased from 10.2 milliard RM. at the end of 1932 to 16.1 milliard RM. at the end of 1937, and to 16.6 milliard RM. at the end of March, 1938.

of raw materials. In other words, the whole of the slack of the economic system had not yet been taken up, and this fact, combined with the continued development of technical progress, must have contributed importantly to the preservation of equilibrium.

THE PROBLEM OF THE MAINTENANCE OF FULL EMPLOYMENT

In looking at Germany's economic system to-day, the question which most people are disposed to ask is whether it is going to be possible for her to preserve full employment after rearmament has come to an end, or whether there will be so great a slump in the constructional and engineering trades that industry in general will be dragged down in the depression and that there will be a recurrence of unemployment on a large scale.

The answer to this question turns in the first instance upon the reserves of investment which exist in Germany. The first of these is housing: there is an accumulated shortage of housing at the present time which is variously estimated at from one and a half to two million houses. Housing during the last few years has not been pressed forward as vigorously as it might have been, partly because of the competing requirements of construction for public purposes, and partly with the deliberate aim of having a reserve of employment when public demand should slacken off. This will undoubtedly help to keep building workers in employment, though it will not absorb iron and steel on anything like the scale that has been needed for big constructional works.¹ Apart

¹ If it were possible to design a really satisfactory steel house, the prob-

from the shortage of dwelling-houses, there are also vast possibilities in the reconstruction of German cities to meet the needs of modern transport conditions, and to improve the amenities of urban life.

Inland water transport takes on quite another complexion when a country is in full work and the railways are hard put to it to carry all the goods that are offered to them.¹ The great Midland Canal (*Mittellandkanal*), which was designed to link the Rhine with central and eastern Germany and to carry ships of 1,000 tons, has reached the Elbe this year (1938) and will be fully completed by 1942. Other projects (*e.g.* the widening of the Dortmund-Ems Canal to take ships of 1,500 tons) which are now in progress could be speeded up if necessary, and when these are completed there are many others, in the background of which the greatest is the Rhine-Main-Danube Canal.²

In the spring of 1938 there were only some 2,000 kilometres of motor roads actually open for traffic out of a planned total length which has recently been increased from 7,000 to 10,000 kilometres. These roads not only employ much labour directly, but also make heavy demands on the iron and steel industries for bridges, etc. In all 2.1 milliard RM. were spent on

lem, in Germany and elsewhere, of "beating swords into plough-shares" would be made a good deal easier.

¹ The "ton-kilometrage" on the German railways, which was 119,000 per goods waggon in 1928, rose to 147,000 in 1937, and the "useful-load-kilometrage" per locomotive from 33,540 to 42,800. Not merely the railways, but the existing inland water transport system of Germany are working to capacity at the present time, and the Midland Canal is an urgent necessity for the construction and exploitation of the new Hermann Goering works at Salzgitter and the great Volkswagen factory at Fallersleben.

² The incorporation of Austria and the Sudetenland, both of them areas which had been suffering from long and continuous economic depression for many years, has opened up additional and large possibilities of capital investment in motor roads, railway communication, etc.

these roads down to the end of 1937, and though the average number of workers employed on them fell from 96,000 for the years 1935-36 to 81,800 in 1937, this decline was merely due to the growing shortage of labour. In 1936 18 per cent. of the entire deliveries of the cement industry was used for road making, and in the same year 328,000 tons of iron and steel were required for the motor roads alone.

So far as the engineering industries are concerned there is an important reserve in the form (at the moment) of an unsatisfied demand for replacements. When industry is running to capacity, and machinery is continuously working long hours, and often two and three shifts in the day, the amount of wear and tear is greatly increased. Other factors, such as taxation, the restriction of dividends, etc., tend to favour the rapid writing down and scrapping of plant. But at the present time this is impeded by the pressure on the order books of the machine-making firms, which are so full that in some cases delivery cannot be promised for two years.¹ This pressure is further enhanced by the general shortage of labour and by the high earnings of skilled labour. Both in industry and agriculture a new and far-reaching process of mechanisation is taking place, and mechanical methods are constantly being devised to take the place of manual operations. The greater the cost and scarcity of labour the greater is the inducement to substitute machinery, but before the new methods can be used the necessary machinery must first be installed.

Under existing conditions the export trade is restricted by the intensity of the domestic demand for

¹ In April-May 1937 the machine-making industry was only able to receive an allocation of 50 per cent. of its steel requirements.

the high-grade products which Germany chiefly exports. Any relaxation of the pressure of the home market and of domestic investment would make possible the diversion of productive capacity to the export markets, and the State would have the financial resources available, if need be, to subsidise an increased volume of exports.

Yet another possible source of investment demand, which could be thrown into the scales to prevent or mitigate a depression, consists in the reserves which every local authority (*Kommune*) must build up under a law of July 1936. Before any of these bodies can lower its taxes it must accumulate seven separate reserves, which fall into three main groups: reserves to offset fluctuations in revenue and other risks; reserves for the maintenance of the property (depreciation, sinking fund and renewals), and reserves for future expansion. It is estimated that the accumulated reserves in March 1938 already exceeded 1.8 milliard RM., and a large part of these would be available in an emergency. Moreover, the restrictions on new borrowing by the municipalities, which have been in force since 1931, and the more recent prohibition of building operations, other than for housing (the *Baustop*), have left a very considerable stored-up demand for municipal improvements.

It may, however, be objected that a cessation of armament orders would bring with it a decrease of effective demand, or at the best that one set of State orders would replace another set with little immediate gain to the standard of living. To what extent is it possible for private investment and demand to take the place of public investment and demand? There would appear to be two important weapons at the

disposal of the Government — the lowering of the rate of interest and the reduction of the income tax on wages. By lowering the rate of interest private investment can be stimulated,¹ an outstanding example being the demand for houses in whose price interest is so large an element; and by reducing the tax on wages or the contributions to unemployment insurance, a large volume of purchasing power can be released for acquiring the products of the consumption goods industries.

There are, therefore, strong *prima facie* grounds for believing that Germany's economic well-being to-day is not vitally bound up with rearmament, in the sense that the end of rearmament would mean the collapse of her prosperity: on the contrary it could contribute largely to the raising of her standard of living.

It is inevitable that speculation as to Germany's power to preserve full employment in the near future should lead to speculation as to the possibility of maintaining it over longer periods of time and of overcoming the difficulties inherent in the attempt to do so. As the experience of the United States in 1927-29 and of England in 1936-37 shows, any economy, which reaches and maintains for any length of time even approximate full employment, generates incomes on so large a scale that savings also become very large. If we assume that it is possible to increase the demand for consumption goods by lowering the taxation of

¹ The use of a low rate of interest to encourage private investment would have the disadvantage of diminishing the present direct State control over the flow of investment; while an investment which is based chiefly on the demand for consumer's goods, is apt to be unstable because of the fluctuations to which such demand is exposed. This latter difficulty might be counteracted to some extent, however, by the use of the new device for control over consumer's demand in the form of the steering of consumption.

wages, this — combined with a fall in the rate of interest — should provide a powerful inducement to an increased investment in the consumption goods industries. But as Mr. Meade and Mr. Harrod have recently shown, the continuance of investment in the consumption goods industries depends upon a continued *increase* in the volume of consumption. Now, on the one hand, there are limits to the extent to which consumption can go on increasing, and on the other hand, the growing volume of investment in the consumption goods industries must sooner or later yield diminishing profits and therefore less incentive to further investment. At this stage in an ordinary *laissez-faire* economy there would be a slump and a period of unemployment, which would provide a breathing-space during which demand could recover, savings diminish and investment later revive. The cumulative forces of revival would then come into play once more, leading to another boom and eventually to another slump. If, however, full employment is to be maintained, this breathing-space is not available, and the equating of the amount of investment to the amount of saving which the public want to do must be accomplished in other ways. In Germany there seem to be a number of possibilities :

The State could take measures to discourage savings by reducing the long-term rate of interest to a very low figure indeed — to 1 per cent. or less — thus also stimulating the inducement to invest. Very little is known about the probable effects of, say, a 1 per cent. rate of interest on the volume of saving, and it is conceivable that even this rate would be ineffective to produce a balance between saving and investment on the basis of full employment. Should this be the

case, the State could in various ways discourage saving, *e.g.* by taxing saving so as to make the rate of interest negative, by taxing undistributed profits of undertakings (the converse of the existing policy), by heavy progressive taxation on the rich, the proceeds being transferred to the poor, and so forth.

Turning to regard the problem from the investment end, the State could absorb the excess of savings over private investment by borrowing the surplus (at a very low rate) and spending the proceeds in ways which increase the standard of living of the people, at the same time devoting a proportion to great public monuments calculated to increase the pride of the citizens in the magnificence of their country. It may be objected that in Germany, as in most other countries, it is now regarded as proper and right to finance armaments by borrowing, but improper to borrow on a large scale to finance objects of collective consumption. To this it may be replied that a country in which propaganda has been carried to such a high pitch as in Germany, and with a controlled Press and platform, it should not be difficult to alter public opinion in this matter and to produce a new orthodoxy.

Another possibility exists in the export of capital on a very large scale, with all that this might imply in the form of economic imperialism — expansion in south-east Europe, a return to the pre-war drive towards India, the demand for the return of the Colonies, etc. This type of solution would have the *apparent* advantage of coinciding with the interests of the heavy industries and big business in general, while politically it would conform to the desires and aspirations of what is probably an influential section of the German people. As it is reasonable to suppose

that such a policy would be likely to involve friction with other Great Powers, it would also carry with it the continuance of armament output on a large scale, thus helping to solve the problem of maintaining an equilibrium between savings and investment with full employment — but at the very definite cost of a sacrifice to the standard of living.

Which of these various alternatives will in fact be adopted, or in what proportion they may be combined, must remain a matter for speculation, but two factors stand out as of predominant importance: the course of external events, and the balance of economic and political power inside Germany. As to the latter, the point already made above must be emphasised — namely, that any increase in the standard of living which results from a diversion of labour and other resources to the consumption goods industries, must decrease the relative and perhaps the absolute importance of the heavy industries. If, in fact, as some observers affirm, there is already, or will be when the time comes, a close partnership and identification of interests between the heavy industries and those in control of the National Socialist State, there is a strong presumption that external expansion, or some other solution, will be adopted which will subserve the interests of the heavy industries.

This fashionable (Marxist) interpretation may of course be the right one, but it is open to the objection that it does not take into account either the special characteristics of the present German economic and social order or the prevailing system of ideas which is being instilled into the youth of the country. Germany is still a long way from having regained the type of distribution of wealth which prevailed before

the great inflation of 1923 ; and though a new rentier class is rapidly emerging it is still a very different world from that of 1913. Moreover, a study of the columns of such influential organs of opinion as *Das Schwarze Korps*, the mouthpiece of the S.S., or the *Völkischer Beobachter*, or the *Deutsche Volkswirtschaft*, reveals the strength of anti-large-scale capitalist feeling in the country. It is repeatedly affirmed in such journals that the State is willing to tolerate large-scale industry in private hands only so long as it is found to be advantageous on balance, and that it would not hesitate to dispossess it if this seemed desirable. It may turn out eventually that the State-managed Hermann Goering works have a significance which is greater than the immediate economic and strategic aims which led to their establishment. Again, while the official teaching of the *Hitler Jugend* is directed towards fostering racial and nationalist sentiment in a high degree, it emphasises scarcely less strongly the "socialist" aims of the régime — *e.g.* the subordination of private interests to those of the community, the notion of private property as merely being held in trust for the benefit of the nation as a whole, the paramount importance of a rise in the standard of living as the ultimate objective of the economic system, and so on. Even those who might be disposed to question the sincerity of the teachers, would find little reason to doubt the degree of acceptance which the teaching itself meets. As has been stated above there is a strong anti-capitalist trend within the National Socialist Party to-day,¹ including many of the leaders ; but in the future the

¹ The treatment, on its economic side, of the Jews, whom many Germans have been brought to regard as personifying all those aspects of capitalism which they repudiate, is partly to be explained by the strength of this sentiment.

government of the country will be in the hands of those whom it has trained up to be its leaders, and among these the idea of the maximisation of individual profit as the normal aim of economic activity is likely to find few supporters, nor are they likely to be content to act merely as the mouthpiece of the big industrialists.

Finally, the possibility must be envisaged that all attempts to maintain full employment, under the existing system of private ownership of the means of production subject to State control, might fail. In this case there is still the possibility that the threatened break-down of the existing economic basis of the German State could be met and averted by the replacement of private enterprise by a comprehensive system of State ownership and management of all except quite small undertakings. It is evident that such a development is neither desired nor contemplated at the present time and that it would run counter to the official policy of the régime; but it remains as an ultimate contingency which, in spite of all opposition, might prove more practicable and more acceptable to a future generation than the alternative of a return to the normal working of a free economic system, with its alternating cycles of boom and depression.¹ The prestige of the National Socialist State is bound up in a high degree with the fulfilment of its pledges to prevent the recurrence of unemployment on a large scale.

GERMANY'S ECONOMIC RELATIONS WITH THE OUTSIDE WORLD

The problem arises how far Germany is in fact insulated from economic fluctuations and disturbances

¹ The writer does not wish to deny that it is conceivable that a remedy for booms and depressions may yet be found within the ambit of a (relatively) *laissez-faire* economy.

which originate outside her own borders. It must be borne in mind that a great deal of German industry is bound up with the export market ; it is estimated in fact that there are now two million Germans¹ working in the export industries, or approximately a tenth of all employed workers. Nor is it in any sense the desire of those in control of Germany's economic policy to cut her off from world trade. If the Second Four-Year Plan is completely successful, it will mean not less but more foreign trade for Germany — her imports will change in type, but will probably increase in quantity, and with these her exports.

Supposing there to be a prolonged world depression, rivalling that of 1931-32 in intensity, and resulting in the halving of the international volume of trade, could Germany continue to maintain full employment under these conditions ? A foreign slump would not, it is true, necessarily be disastrous to Germany through its effect in reducing her power to import, for this would be mitigated by the probable change in the terms of trade. As a rule food and raw material prices fall faster in a depression than the prices of manufactured goods, and it can be assumed that under such conditions foreign countries would be anxious to find a market for their produce, even on unfavourable terms. The various bilateral, compensation, "Aski", etc., agreements would also help to maintain her imports in some measure ; but in any event there must be a contraction in employment in the export industries, which could not be without its effects on the economy as a whole.² That it would

¹ This compares with between three and four million workers before the war of 1914. Cf. R. Eicke, *Warum Aussenhandel ?* (2nd ed.), p. 7.

² The fact that the present world recession has resulted in an excess of imports over exports of 75 million RM. for the first five months of 1938, as

lead to a general internal slump is improbable, but the possibility exists, and it points to what is universally admitted to be the weakest spot in the German armour — Germany's economic relations with the outside world.

It is not uncommon for an analysis of Germany's economic development to conclude with the statement or implication that, though things have gone well so far, the pace is too hot to last, and Germany is on the verge of a catastrophic collapse. The present chapter has been concerned with some of the economic difficulties which Germany is facing or with which she is likely soon to be confronted. Many of these problems are new in the sense that there is no precedent or historical analogy in the past which can serve as a guide to current policy. Each problem as it arises has to be dealt with on its own merits, and if, and in so far as it is solved, its solution promptly leads to the emergence of new problems and difficulties. But neither general considerations of economic theory, nor a study of the way in which the German recovery has been handled since 1933, would seem to justify the conclusion that the German economic system bears in it the seeds of its own imminent breaking-down. So far as the reasonably near future is concerned, and assuming the absence of war, it would seem more probable that the German economy will grow stronger than that it will collapse or decline.¹

compared with an export surplus of 215 million RM. in the corresponding period of 1937, is a proof of the power of external events to influence the working of the German economic system; though account must also be taken of the purchases of foreign supplies during these months in order to build up internal reserves of foodstuffs and raw materials.

¹ At the date of going to press (December 1938) the author can see no reason to retract the above statement in the text, though he would now

It is not sufficiently realised that the economic difficulties which Germany experienced in the early days of 1938, and still more in the summer of 1938 during the Czechoslovak crisis, were largely of Germany's own making: she intensified her capital outlay on armaments, etc., to so great an extent that she suffered acute inconvenience and created for herself many serious problems, both financial and otherwise. But the decision (in its origin of a *political* nature¹) which has been the cause of all these difficulties is one that can perfectly well be reversed at any time, and with its reversal most of the difficulties will automatically disappear. The very magnitude and scale of German investment is what provides the safety valve of the pressure if the system rises too high. This pressure can be lowered at any time simply by relaxing the intensity of effort in those sectors in which it is least important or urgent. Thus if working-class housing rises in the scale of priority to a high place, as it well may on political grounds, the rebuilding, for example, of Berlin and other types of public construction can be deferred. Again, Germany will suffer no catastrophe if she builds motor roads at the rate of 100 kilometres a year instead of 1000 kilometres a year.

In so far, then, as Germany's difficulties arise from shortage of labour and basic materials, they can be dealt with by slowing down the activity of the system,

add the further proviso, that the intensification of rearmament and public investment, which has been in progress since June 1938, does not last so long and is not carried to such a pitch as to set up unendurable stresses within the German economy.

¹ The German economic system under existing conditions has many of the characteristic features of a wartime-economy: much economic prosperity is being sacrificed quite consciously and deliberately to objectives of political prestige and military security.

while still maintaining it sufficiently to preserve full employment.

So long as German labour is willing to work for its present wages and is not violently dissatisfied with the trend of the standard of living, and so long as full employment continues, the German economic system is in no danger of breaking down. It may, of course, be said that these are two very big "ifs". But employment at the moment is more than "full" in the ordinary sense of the word, so that there is no reason to expect a sudden transition to unemployment and depression if there is some diminution in this hyper-activity. So far as labour is concerned, the enormous power of State-controlled propaganda must be borne in mind. Over against economic discontents may be set political successes such as the incorporation of Austria and the Sudetenland, while on the economic side there are all the advantages of steady employment and the contrast (which it is so easy for propaganda to exploit and exaggerate) between the economic stability and comparative well-being of Germany, and the poverty of Russia or the fluctuations and unemployment of Britain, France and the United States. In time, no doubt, the force of the appeal to the historical contrast between six to seven million German unemployed in 1932-33 and the full employment of the present, will become less effective; but the hope of still better times to come can be held up before the eyes of the German worker with a considerable measure of probability that it will be realised. Given full employment, the gains of technical progress can be reaped either in increased output or greater leisure, or both. As more and more machinery is introduced the hours of work can gradually be cut

down without stopping the rise in the material standard of living.¹ The German worker is not likely to be driven into revolt by economic causes as long as there is any improvement in his condition of life, even though the rate of improvement may be a slow one.

THE PROBLEM OF ECONOMIC FREEDOM

In the mind of an English economist who has studied at first hand the economic history of Germany during recent years and who has observed, sometimes critically and sometimes admiringly, the struggles and achievements which have characterised her recovery from the depression of 1932, the question inevitably arises: What scope does the system afford to those human values on which economic welfare in the long run must ultimately depend? In its outward appearance it is a complex and tangled net-work of State control, regulation and interference. The bureaucratic apparatus is so enormous that only the expert can understand its operation in the sphere with which he is actually concerned. The matter is made worse by the fact that a legal training is still the starting-point for a career in the higher civil service, and the majority of the officials controlling economic affairs are lawyers.² The *Paragraphengeist*, as it used to be called in the old days, is still rampant in present-day Germany, with all its rigidity and paralysing influence. Is it possible to maintain indefinitely a managed economy on these lines, and yet prevent human

¹ In some industries the present hours of work are certainly longer than the technical optimum for a long run, so that a decrease would be associated with a rise rather than a fall in productivity per head.

² There is observable a growing tendency to make use of the services of engineers and economists in the work of economic control, but the supply, especially of trained economists, is not nearly adequate to meet the demand.

personality and initiative from being strangled by the coils, the sheer weight and inertia of the bureaucratic machine? For the time being there remains the momentum of an earlier and freer economic system, but what of the future when the momentum has run down and the system must be maintained by those whom it has raised up?

No man can foresee how the German economic system will develop — except that it is certain that it cannot stand still. It is true that there are not lacking in Germany those who fear the peril of the bureaucratisation, but it is eminently a danger which it is easier to recognise than to avoid. When the Second Four-Year Plan was sprung upon a startled country, the “rule of the Major-Generals”¹ partially supplanted that of the State officials and over-rode departmental jealousies and obstructiveness. But to the individual manufacturer and trader the main result was to present him with new sets of forms and still more material for the “paper war”. The retention in being of the National Socialist Party side by side with, and in a sense *over* the official organisation of the State, is in part an attempt to preserve the spirit of revolutionary enthusiasm for getting things done, from being stifled by the traditionalism and routine of the administrative services. But to solve for the time being the problem of the leaders does not necessarily solve the problem of the led, and in the long run this latter may prove to be the more important and the more intractable of the two.

¹ See above, pp. 107 n., 108.



STATISTICAL APPENDIX

TABLE I *
POPULATION STATISTICS ¹

Year	No. of Marriages	Live Births	Crude Birth Rate per 1000 of Population	Deaths	Excess of Births over Deaths (Net Increase of Population)		Total Population (000's)
					Number	Rate per 1000 of Population	
1913	513,283	1,838,750	27.5	1,004,950	833,800	12.4	66,978
1928	594,631	1,199,998	18.6	747,444	452,554	7.0	64,393
1932	516,793	993,126	15.1	707,642	285,484	4.3	65,716
1933	638,573	971,174	14.7	737,877	233,297	3.5	66,027
1934	740,165	1,198,350	18.0	724,758	473,592	7.1	66,409
1935	651,435	1,263,976	18.9	792,018	471,958	7.1	66,871
1936	609,631	1,277,052	19.0	795,203	481,849	7.2	67,346
1937	618,971	1,275,212	18.8	793,192	482,020	7.1	67,800

¹ *Statistisches Jahrbuch für das Deutsche Reich, 1937 ; Wirtschaft und Statistik 1938, No. 9.*

TABLE II *
NATIONAL INCOME AND THE VOLUME OF INVESTMENT ¹
(In Milliard RM.)

	1928	1932	1933	1934	1935	1936	1937
1. <i>National income</i> . . .	75.4	45.2	46.6	52.7	58.6	65.0	71.0
2. <i>Investment :</i>							
(a) Total gross . . .	13.7	4.2	5.1	8.2	11.6	13.8	16.0
(b) Total net . . .	7.0	-1.6	-0.75	2.4	5.6	7.6	9.5
(c) Public works including transport, canals and roads (gross) . . .	4.6	1.7	2.2	4.1	6.5	7.6	..
(d) Dwelling-houses (gross) . . .	2.8	0.76	0.88	1.4	1.6	1.9	..
(e) Electricity, gas, water (gross) . . .	1.0	0.22	0.2	0.3	0.4	0.5	..
(f) Agriculture (gross) . . .	0.95	0.55	0.6	0.7	0.78	0.85	..
(g) Industry (gross) . . .	2.6	0.44	0.56	1.1	1.7	2.1	..
(h) Handicraft, commerce, misc. (gross) . . .	1.7	0.55	0.65	0.7	0.75	0.85	..

¹ Report of Reichskreditgesellschaft for 1937-38, p. 6.

TABLE III *
INVESTMENT, DEPRECIATION AND STOCKS,
IN INDUSTRY ¹

	1928	1932	1933	1934	1935	1936
<i>Investment :</i>	(Million Rm. reduced to the Price Basis of 1928)					
Production goods industries (gross)	1,715	290	375	850	1,500	1,930
Consumption goods industries (gross)	900	225	300	430	500	590
All industry (gross) .	2,615	515	675	1,280	2,000	2,250
<i>Investment and Depreciation :</i>	(Million RM., Actual Values in each Year)					
All industry (gross) .	2,615	439	557	1,067	1,658	2,084
"Normal" depreciation	1,534	1,320	1,300	1,300	1,320	1,400
Actually written off for depreciation	1,700	1,600	1,500	1,800	2,000	2,300
<i>Industrial Stocks :</i>						
Total	12,061	6,534	6,459	6,964	7,587	7,787
Changes of stocks held by production goods industries	+ 875†	- 655‡	- 128	+ 408	+ 420	+ 242
Changes of stocks held by consumption goods industries	+ 391†	- 351‡	+ 53	+ 97	+ 203	- 42
Total changes of stocks	+ 1,266†	- 1,006‡	- 75	+ 505	+ 623	+ 200

† Increase in 1928 over 1927.

‡ Decrease in 1932 against 1931.

¹ *Die Deutsche Volkswirtschaft*, No 4, 1938, pp. 149-151.

TABLE IV *
ECONOMIC INDICES †

	National Income (Mrd. R.M.)	Wholesale Prices (1913=100)	Industrial Production (1928=100)	Imports (Mrd. R.M.)	Exports (Mrd. R.M.)	Employment (000's)	Unemployment (000's)	Currency Circulation (Mrd. R.M.)
1928	75.4	140.0	100	14.0	12.3	18,000	1,353	5.8
1932	45.2	96.5	58.0	4.7	5.7	12,580	5,575	5.8
1933	46.6	93.3	65.7	4.2	4.9	13,080	4,804	5.4
1934	52.7	98.4	82.9	4.5	4.2	15,090	2,718	5.5
1935	58.6	101.8	95.3	4.2	4.3	16,000	2,151	5.8
1936	65.0	104.1	107.8	4.2	4.8	17,140	1,592	6.2
1937	71.0	105.9	118.8	5.5	5.9	18,370	912	6.7
March 1938	..	105.8	124.6	..	..	18,831	508	7.0

† In continuance of Table II, p. 14, and Table VI, p. 31.

TABLE V *
NEW CAPITAL ISSUES IN GERMANY ¹ ²
(Million RM. In 1913 million marks)

Year	(a) Public Loans	(b) Industrial Loans	(c) Stocks and Shares	Total of (a), (b) and (c)
1913	1,251	331	600	2,182
1927	714	181	1,438	2,333
1928	663	294	1,339	2,296
1929	520	8	979	1,507
1930	529	35	555	1,119
1931	65	1	635	701
1932	248*	10	150	408
1933	71*	2	91	164
1934	75*	4	143	222
1935	1,636	3	156	1,795
1936	2,670	47	395	3,112
1937	3,150	258	333	3,741
1938 (Jan.-April)	1,934	65	116	2,115

* Not including tax exemption certificates.

¹ Report of Reichskreditgesellschaft for 1934-35, p. 65, and for 1938, p. 66.

² Not including issues of mortgage or municipal bonds.

TABLE VI *

NUMBERS EMPLOYED IN INDUSTRY AND HANDI-
CRAFTS, MID-1932 AND MID-1937 †¹

(Mid-year Figures in 000's)

	1932	1937	Increase
Mining	407	602	195
Building materials	183	322	139
Building and ancillary Trades‡	580	1,815	1,235
Iron and Metals (extractive and manu- facturing)	934	2,397	1,463
Electrical, mechanical and optical Instru- ments	216	559	343
Chemicals	201	358	157
I. Total production and capital goods	2,521	6,053	3,532
Textiles	628	887	259
Clothing	381	535	154
Foodstuffs, beverages, etc.	686	858	172
Timber	275	587	312
Papermaking, printing, duplicating, etc.	347	446	99
Leather and linoleum	56	103	47
Glass and pottery	139	182	43
Miscellaneous	266	308	42
II. Total consumption goods	2,778	3,906	1,128
I and II Grand total	5,299	9,959	4,660

† Includes apprentices and also absentees from sickness.

‡ Includes emergency relief workers.

¹ Weekly Report of Business Research Institute, 1937, No. 41/42.

TABLE VII *
AGRICULTURAL OUTGOINGS¹
(In Million RM.)

	1932-33	1933-34	1934-35	1935-36	1936-37
Total outgoings . . .	5,519	5,522	5,591	5,989	6,324
Outgoings in respect of new buildings . . .	160	186	204	206	239
Maintenance of build- ings	203	217	227	223	242
New machinery and tools	138	177	234	327	395
Maintenance of inven- tory	475	514	581	697	784
Manures	522	567	626	732	699
Forage	698	722	610	594	597
Other materials . . .	427	433	480	508	550
Cash wages and insur- ance contributions .	1,486	1,466	1,539	1,622	1,708
Taxes	560	510	440	450	480
Interest on borrowed capital	850	730	650	630	630

TABLE VIII *
AGRICULTURAL BALANCE-SHEET²
(In Million RM.)

	1932-33	1933-34	1934-35	1935-36	1936-37
Total selling receipts .	6,405	7,409	8,302	8,698	8,861
Repayment of debt .	- 200	- 200	- 300	- 100	0
Current expenses (ex- cluding cash wages) plus 7 per cent. allow- ance for overhead charges	4,573	4,580	4,563	4,916	5,195
Available liquid re- sources	1,632	2,629	3,439	3,682	3,666
Retained by farmers	300	1,300	2,020	2,190	2,094
Paid out in wages .	1,332	1,329	1,419	1,492	1,572

¹ Report of Reichskreditgesellschaft for 1937-38, p. 30.

² *Ibid.* p. 31.

TABLE IX *
GERMAN IMPORTS OF FOODSTUFFS AND FODDER ¹

	1933		1934		1935		1936		1937	
	1,000 Tons	Mill. RM.	1,000 Tons	Mill. RM.	1,000 Tons	Mill. RM.	1,000 Tons	Mill. RM.	1,000 Tons	Mill. RM.
Cereals	1,900	160	2,000	160	1,200	100	500	50	4,100	430
(Of which Wheat)*	(780)	(70)	(650)	(60)	(160)	(15)	(75)	(7)	(1,280)	(170)
Oil seeds	1,900	220	1,900	180	1,100	120	1,400	200	1,500	230
Fruit of all kinds	1,000	260	1,000	250	800	240	900	240	700	220
Butter	60	80	60	70	70	90	80	100	90	120
Meat	50	40	60	40	60	60	110	90	110	80
Fish	230	50	210	50	220	50	250	50	230	50
Oilcakes	530	50	120	10	300	20	60	5	110	10
Miscellaneous . . .	1,530	400	1,700	500	1,800	400	1,400	500	1,700	600
I. Total food and fodder	7,200	1,300	7,000	1,200	5,600	1,100	4,700	1,200	8,600	1,700
II. Beverages and tobacco	300	300	400	300	300	300	400	300	400	300
Total I+II	7,500	1,600	7,400	1,500	5,900	1,400	5,100	1,500	9,000	2,000

* Including wheat flour expressed in terms of wheat.

TABLE X *
POSITION OF THE REICHSBANK ²
(In Million Marks)

	1928	1932	1933	1934	1935	1936	1937	March 1938
Gold and foreign ex- change	2,405.4	974.6	529.7	164.7	91.0	75.2	74.6	76.2
Assets :								
Bills—cheques . . .	2,203.7	3,013.2	2,884.8	3,213.8	3,702.5	4,295.0	4,893.3	5,319.8
Reich treasury bills	4.4	19.2	20.3	15.3	14.9	22.1	14.7	24.0
Eligible securities . .	93.6	326.0	371.6	372.3	370.1	257.1	133.0	108.1
Other securities . . .				323.9	322.7	311.3	300.2	294.6
Loans on securities . .	60.4	144.4	98.8	91.6	56.3	48.8	43.3	50.5
Total credits	2,362.1	3,502.8	3,375.5	4,016.9	4,466.5	4,934.3	5,384.5	5,797.0
Liabilities :								
Notes in circulation	4,234.7	3,843.8	3,372.7	3,561.5	3,730.8	4,231.8	4,777.6	5,116.3
Clearing deposits . .	557.5	389.2	396.1	644.4	808.3	708.4	739.2	947.4

¹ R. Eicke, *Warum Aussenhandel ?* (2nd ed.), p. 16.

² *Statistisches Jahrbuch für das Deutsche Reich* ; Annual Reports of the Reichsbank.

TABLE XI *
REICH TAX AND CUSTOMS REVENUES ¹
(In Million RM.)

	Financial Year (April 1–March 31)						
	1928–29	1932–33	1933–34	1934–35	1935–36	1936–37	1937–38
Income, property and trade taxes :							
Total	6,148	4,023	4,062	4,970	6,176	7,839	9,822
Wages tax	1,415	749	730	899	1,362	1,544	1,760
Assessed income tax	1,524	543	520	775	1,075	1,584	2,219
Corporation tax	608	106	210	320	593	1,047	1,553
Property tax	451	330	307	303	303	360	366
Sales tax	1,000	1,354	1,516	1,873	2,020	2,389	2,754
Consumption taxes	1,772	1,518	1,719	2,104	2,229	2,320	2,547
Customs revenues	1,105	1,106	1,065	1,149	1,249	1,333	1,595
Grand total	9,025	6,647	6,846	8,223	9,654	11,492	13,964

TABLE XII *
NATIONAL INCOME AND TAXATION ²
(In 1000 Million RM.)

	National Income (Calendar Year)	Public Revenues (Financial Year)			Proportion of Public Revenues to National Income %
		Taxes and Customs †	Unemployment Insurance Contributions	Total	
1928	75.4	13.2	0.8	14.0	18.6
1932	45.2	10.2	1.3	11.5	25.4
1933	46.6	10.6	1.5	12.1	26.0
1934	52.7	11.8	1.5	13.3	25.2
1935	58.6‡	13.3	1.4	14.7	25.1‡
1936	65.0‡	15.4	1.5	16.9	26.0‡
1937	71.0‡	18.0	1.6	19.6	27.6‡

† Reich, provincial, and local revenues from taxes, dues and customs.

‡ Figures corrected for revised estimates of the National Income.

¹ Report of Reichskreditgesellschaft for 1938, p. 71.

² *Ibid.* 1937–38, p. 77.

TABLE XIII *
GERMANY'S FOREIGN DEBT¹
(In 1000 Million RM.)

	Long Term	Short Term		Grand Total.
		Total	(Standstill)	
July 1931 .	10·7	13·1	6·3	23·8
February 1933	10·3	8·7	4·1	19·0
„ 1934	7·2	6·7	2·6	13·9
„ 1935	6·4	6·7	2·1	13·1
„ 1936	6·1	6·3	1·7	12·4
„ 1937	5·4	5·4	1·2	10·8
„ 1938	5·0	5·0	0·9	10·0

¹ R. Eicke, *Warum Aussenhandel?* (2nd ed.), p. 76.

TABLE XIV *
FINISHED GOODS EXPORTS¹
(In Million R.M.)

	1929	1936	Jan. 1936	Nov. 1937	% Increase 1936-37 (Jan.-Nov.)†
<i>Production goods :</i>					
Engineering (non-electrical) products, total	1,603	606	546	679	24.2
Machine tools	210	148	133	183	37.4
Chemical preliminary and intermediate products, total	881	418	378	429	13.5
Dyes, varnishes and paints	306	182	165	182	10.4
Iron goods, total	1,684	724	657	898	36.7
Bars and shapes	217	104	94	141	50.4
Steel tubes	138	64	58	87	50.6
Electrical and electrical engineering products . .	629	258	233	282	21.1
Fine mechanical and optical instruments	154	91	82	105	27.9
Total	4,951	2,097	1,896	2,393	26.2
<i>Typical consumption goods :</i>					
Textile goods, total	1,369	378	347	397	14.3
Tissues, fabrics, etc. . .	770	213	194	244	25.7
Clothing	599	165	153	152	-0.2
Leather and leather goods	395	86	80	65	-18.5
Furs and fur goods	289	42	39	47	22.3
Chemical final products . .	258	178	161	197	22.9
Paper, cardboard, paper goods	390	150	135	167	23.9
Glass and glassware	161	76	68	76	10.7
Wood products	126	39	35	36	2.6
Earthenware, porcelain . .	155	67	60	69	14.8
Toys	121	36	32	34	4.8
Musical instruments	117	28	25	27	8.1
Clocks and watches	61	32	29	34	16.7
Total	3,442	1,112	1,011	1,149	13.7
Other finished goods	1,440	593	530	708	33.7
Grand total	9,833	3,802	3,437	4,250	23.7

† The percentages are calculated from the precise figures for the value of the exports.

¹ Report of Reichskreditgesellschaft for 1937-38, p. 96.

TABLE XV *

COMMODITY ANALYSIS OF GERMANY'S
FOREIGN TRADE ¹

(Values in Million RM.)

	Total		Jan.-Nov.	
	1935	1936	1936	1937
<i>Imports :</i>				
Total	4,159	4,218	3,851	4,938 [†]
(a) Foodstuffs, etc.	1,435	1,499	1,360	1,841
(b) Industrial, total	2,724	2,719	2,491	3,052
Raw materials	1,568	1,571	1,444	1,814
Semi-finished goods	748	750	685	884
Finished products	408	397	362	354
II. <i>Exports :</i>				
Total	4,270	4,768	4,311	5,359 [‡]
(a) Foodstuffs, etc.	96	88	78	81
(b) Industrial, total	4,174	4,680	4,233	5,277
Raw materials	447	419	380	530
Semi-finished goods	416	459	416	497
Finished products	3,311	3,802	3,437	4,250

[†] Including 45 million RM. returned goods.

[‡] Including 1 million RM. returned goods.

¹ Report of Reichskreditgesellschaft for 1937-38, p. 96.

TABLE XVI*
GERMANY'S NET IMPORTS OF CERTAIN
RAW MATERIALS¹
(January-October)

	I. Volume in Thousand Metric Tons				II. Value in Million RM.			
	1928	1935	1936	1937	1928	1935	1936	1937
Production goods industries:								
1. Iron Ores .	11,991	11,705	15,736	16,854	213.9	103.8	143.0	179.4
2. Copper . .	229	181	161	207	288.7	66.2	70.3	140.8
3. Nickel, Lead, Tin, Zinc . .	205	119	132	134	125.4	53.9	46.8	65.3
4. Rubber . .	37	60	65	103	89.2	36.2	51.5	98.8
5. Mineral Oils .	1,645	2,777	3,140	3,409	190.1	109.7	135.7	167.6
6. Timber . .	7,159	4,715	4,107	3,347	477.2	173.2	173.5	181.6
Consumption goods industries:								
1. Wool . . .	150	140	109	108	496.4	220.5	197.0	243.4
2. Cotton . . .	262	289	255	274	440.8	239.6	203.7	221.0
3. Hides and Skins	110	121	114	133	434.7	117.8	143.9	196.5

¹ Report of Reichskreditgesellschaft for 1937-38, p. 97.

TABLE XVII *
 GERMANY'S FOREIGN TRADE WITH LARGE
 ECONOMIC REGIONS (GROSSRAEUME) ¹
 (In Million RM.)

	Germany's Imports				Germany's Exports			
	1932	1935	1936	1937	1932	1935	1936	1937
Great Britain and British Empire .	854	679	768	1,025	727	690	793	912
Holland and Dutch Colonies	418	353	325	392	679	442	437	528
France and Colonies .	227	195	141	232	501	274	276	343
Italy and Colonies .	181	188	209	221	223	278	241	318
Belgium and Colonies .	177	148	168	235	304	204	214	292
Switzerland	92	114	106	94	412	257	226	231
Spain and Colonies .	106	129	110	135	96	110	72	66
Portugal and Colonies	21	28	29	35	30	33	35	43
Western States, Total	2,076	1,834	1,856	2,370	2,972	2,288	2,294	2,733
Scandinavian States .	273	369	439	488	495	439	509	634
South-eastern States of Europe	337	363	405	601	403	321	432	597
Austria and Hungary .	101	149	170	207	207	171	192	233
Poland and Border States	169	163	176	237	197	159	184	247
Soviet Union	271	215	93	65	626	39	126	117
Turkey	40	93	118	98	31	67	79	111
Northern and Eastern States of Europe, Total	1,191	1,352	1,401	1,696	1,959	1,196	1,522	1,939
South-American States	353	467	435	731	192	326	409	532
United States	598	243	244	282	295	177	183	210
China	177	56	70	94	82	91	126	148
Central American States	91	79	100	119	44	65	100	120
Japan and Colonies, incl. Manchukuo .	19	67	68	90	81	88	82	129
Extra-European Regions, total . . .	1,238	912	917	1,316	694	747	900	1,139
Other countries . . .	162	61	44	86	114	39	52	100
Germany's total Imports and Exports	4,667	4,159	4,218	5,468	5,739	4,270	4,768	5,911

¹ R. Eicke, *Warum Aussenhandel?* (2nd ed.), p. 38.

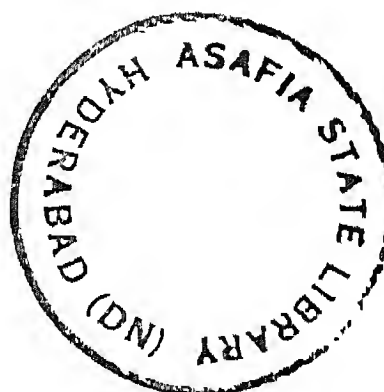
TABLE XVIII *

GERMANY'S BALANCE OF TRADE ¹

(In million RM.: Active Balance +; Passive Balance -)

	European	Overseas	Total
1932	+ 2,147	- 1,075	+ 1,072
1933	+ 1,520	- 853	+ 667
1934	+ 611	- 895	- 284
1935	+ 561	- 450	+ 111
1936	+ 852	- 302	+ 550
1937	+ 1,055	- 612	+ 443

¹ 1932-36.—Report of Reichskreditgesellschaft for 1937-38, p. 98; 1937 figures supplied by Reichskreditgesellschaft.



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